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BUDGET SPECIAL

Shockingly responsible | **Dangerously sensible**

THE INDEPENDENT

No 3,153 — WEDNESDAY 27 NOVEMBER 1996 — WEATHER: Cold with wintry showers — (IR 45P) 40p

1p off tax
Basic income tax rate down 1p to 23p, the 20p tax band widened by £200, 40p threshold up £600, personal allowances up £280, and married couples' allowance up £40. Page 3

Petrol up 3p
Drivers pay for environmental damage with car tax up by £5 to £145 a year. Petrol and diesel prices increased by 3p a litre, but tax on ultra-low sulphur diesel is reduced. Page 7

Spirits cut 26p
Concerns over under-age drinking led to 40 per cent rise in duty on alcopops. Beer and wine escape increases, but distillers celebrate with tax on spirits cut to 26p a bottle. Page 5

15p on cigarettes
Smokers are hit by inflation-busting tax increases. Duty on a packet of 20 cigarettes rises by 15p, on a packet of 10 small cigars by 7p, and on a packet of pipe tobacco by 8p. Page 5

Prescriptions rise
Falling ill will cost more. The price for each drug prescription is lifted by 15p to £5.65. Maximum dental charges for a full course of treatment rises by £5 to £330. Page 6

Spending to fall
The Public Sector Borrowing Requirement is estimated at £26.5bn for 1996/97, falling to £19bn for the following year and towards zero by the turn of century. Page 9

Profits lost
Tax relief on profit-related pay schemes will be phased out by 2000. The current £4,000 upper tax limit remains until 1998 but will be reduced progessively. Page 2

Has canny Ken blown it?

Anthony Bevins and Diane Coyle

Kenneth Clarke yesterday told the country and the Conservative Party that he was not going to play Santa Claus or Scrooge in a Budget seen by his own backbenchers as too responsible to be an election winner.

The Chancellor of the Exchequer told the Commons: "I have one overriding aim – the lasting health of the British economy."

The Tory high command hopes the prospect of another five years of steadily growing prosperity will be enough to swing the electorate behind John Major.

Their message was that real take-home pay for the average family, including yesterday's Budget changes and an "assumed" pay rise, would add £370 a year or £7 a week to the average pay packet in the year from next April – after the next election.

But in an excoriating attack on the Conservative tax record, Labour leader Tony Blair told the Commons: "The Conservatives, who fought the last electioo on the promise they would cut taxes will, after all the changes made today, leave the average British family £2,120 worse off in tax.

"The Chancellor announced a crackdown on tax cheats. I think he should start with the Conservative Party after 22 Tory tax rises."

The Labour attack will be reinforced with a new poster campaign today, building on a recent poll in which more people believed that Labour would set a lower overall tax rate than the Conservatives.

Mr Clarke's Budget – as leaked overnight to the *Daily Mirror* – included a 1p cut in the standard rate of income tax, down to 23p in the pound; the lowest rate for 60 years.

But even without the leak, none of the individual measures would have been eoough to make a dramatic impact.

With 15p on a packet of cigarettes, 3p a litre on petrol and diesel, 26p a bottle off spirits, an increase in insurance premium tax to 4 per cent, a doubling of air passenger duty, £5 on a car tax disc, a phase-out of profit-related pay, the Budget included a total of £2bn tax cuts. That was balanced by £2bn worth of "eye-wateringly tight" spending cuts, including cuts in single parent benefit and cuts in roads and London Underground investment programmes – and a 15p increase in prescription charges bringing them to £5.65 an item.

Mr Clarke said: "Despite all the difficulties, we have been able to reduce public spending plans over the next three years by a further £7bn in this Budget."

However, there were increases for education, health and law and order programmes, with an extra £1.6bn for patient services, £830m more for schools, and a rise of £450m for police and prisons.

Since he became Chancellor in 1993, public speoding had been cut by £24bn through to next year, and many of the cuts are yet to emerge from the small print of the Budget Red Book.

As for the tax froot, Labour and the Liberal Democrats said last night that all the Treasury calculations excluded the impending impact of rises in council tax.

Liberal Democrat spokesman Malcolm Bruce said: "Mr Clarke is up to his old tricks again. The money for education does not come from the Government, but from a £700m rise in council taxes."

Mr Blair said close inspectioo of the Budget showed that the Tories were back to their "old tricks". Council tax was due to rise by about £4bn over the next three years, or 6 per cent.

Phasing out profit related pay would be the equivalent of 8p on the standard rate of tax for some low-paid workers. "Give with one hand, take with another – that's the record of the Tories over the years."

The official tax burden table in the Treasury Red Book shows a remorseless increase in the standard measure – non North Sea taxes and National Insurance Contributions as a percentage of money Gross Domestic Product – moving op from 36 per cent in the current year, 1996-97, to 38 per cent in 2001-02, compared with 34.75 per ceot in 1978-79 when Labour was last in office.

As for the overall political judgement oo the Chancellor's oeither Santa nor Scrooge performance, Conservative backbencher Keith Mans told *The Independent* last night: "He has handed on a very good set of economic statistics to whoever wins the next election."

But in economic terms, the Chancellor achieved the essential Budget hat trick of reducing taxes, spending and government borrowing simultaneously.

The net tax "giveaway" amounted to a cautious £735m, favouring people on middle incomes and upwards. Those on low incomes will lose out as a result of higher taxes on cigarettes and the abolition of the lone parent premium from 1998.

Mr Clarke's cantion on the tax front got a warm welcome from much of the business community, pleased he was not rocking the boat with the economy doing so well. But there was a more mixed reaction in the financial markets, even though he reduced income tax by far less than many City commentators had feared.

A majority of analysts reckon that the Chancellor will still have to raise interest rates once more before May if he is to have any hope of hitting the Government's inflation target. However, Mr Clarke's prediction that governmeot borrowing will decline by more than £7bn to £19bn oext year was welcomed as both oecessary and more or less plausible.

The Chancellor made it clear in his speech that this reduced borrowing forecast was intended to take the pressure off interest rates. This suggests he will certainly hold out until at least the eod of January, when key figures on the economy's growth in the final quarter of this year will become available.

Even so, shares fell during the speech, having touched a new record earlier in the day. City scepticism focused oo whether the Government would be able to deliver on its lower spending plans and crackdown oo tax avoidance and benefit fraud.

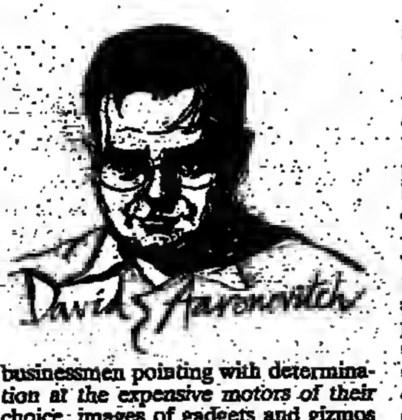
Kevin Darlington, an economist at brokers Hoare Govett, said: "The Governor of the Bank of England is oot going to be racing to congratulate Mr Clarke. It has oot stifled the interest rate debate."

Most business leaders – at least outside insurance and travel, hit by significantly higher taxes – were a bit less grudging. The reduction in the uniform business rate made small businesses ecstatic.

Bigger companies gave mixed reviews. Andrew Higginson, head of economic affairs for the British Retail Consortium, said: "The fact the Budget was oeutral is good news because things are going quite well at the moment."

However, David Richardsoo, president of the British Chambers of Commerce, said: "A penny cut in income tax will do oothing for business and investment."

The Chancellor dances nude and he's not a pretty sight



Fatima Clarke had come to dance – and the House was full. Eyes twinkling, his mouth set in a teasing smile, the Chancellor sat beside the Prime Minister, waiting for the tambours to beat and the sitars to strum. His back benches regarded him with nervous expectation: all present had a very shrewd idea of exactly what charms had beeo so flimsily concealed from the tabloid press, but was it not just possible that – like the Diana video – the leaks would turn out be a hoax?

So the time came and Fatima rose. His robes fluttering around his gently undulating body, he danced a dance of well-being and wealth. Britain was "ever more prosperous and successful ... a Rolls-Royce economy, built to last." For the first time Britain had enjoyed a higher rate of growth than either France or Germany for five clear years (Germany's incorporation of an eotire basket case Stalinist oation in that time, rightly, never rates a mention).

Then Fatima swung to the samba rhythms of consumption. Consumer spending would go up by 3 per cent this year, by 4 per cent next year, a testament to "a more confident consumer". Images rose like think-bubbles from the Chancellor's head, and floated around the roof of the chamber; images of confident consumers, striding purposefully through stuffed supermarkets, images of happy businessmen pointing with determination at the expensive motors of their choice, images of gadgets and gizmos overloading the shelves of contented, ordinary working people. Certainly Fatima seemed to bear out the truth of these images – the more of his waiting whiskey the Chancellor consumed, the more confident he became.

By now the belly was wobbling almost uncontrollably and the backbenches were very nearly shouting "off, off, off!" Not out of excitement, I should add, but impatience. Given the level of information that we already had about the budget, waiting for the veils to fall was like waiting for your partner of 30 years to take his clothes off – not unpleasant, but hardly worth a major performance. Teresa Gorman, upstairs in the Tory overspill, was asleep and we'd all had enough of the music – it was time for the strip.

As Fatima twirled ponderously, an old tease was revealed. Just a week ago the Chief Secretary to the Treasury, Willy Waldegrave (sitting smiling just behind the capacious bottom of his amiable boss) had thrown every possible Labour commitment – and a few impossible ones – into one pile and costed them as adding vast amounts to direct taxation. But actually there had been lots of money available all along! Tax relief on profit-related pay could be phased out! Tax loopholes could be closed! Ingenious accountants outfoxed! Fraud eliminated! Smugglers *caught and their baccy and rum confiscated!* Housing benefit cut! So there was tons of dosh available for education and health and the poor and cutting borrowing and...?

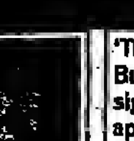
At last, the last small pieces of gauze were theatrically cast off and floated to the floor. Thresholds were duly raised. Then "this is the stage of my speech", he tantalised, "where everyone is asking themselves – are the guesses of the newspapers right?" One hand fluttered the last tiny wisp over the most interesting part of his fiscal anatomy. "And yes, Mr Deputy Speaker, I am indeed also able to reduce the basic rate of income tax by one penny". God knows, they thought, it isn't very big, but it is there. The Tory benches waved their order papers more in relief than out of arousal. Naked and sweating, Fatima sat down.

Whooosh! For an hour and a quarter the Boy Wonder on the benches opposite had been frowning, making notes, reading missives sent in by clever teenagers at computer keyboards elsewhere, and generally keying himself up for his response. A blue-blooded chap, he could appreciate some of Fatima's more sensuous moves, but his tight superhero costume was snagging, and he was increasingly anxious to perform. So when all was finally revealed, he wasn't inclined to dwell on the pleasures *now* visible.

One finger raised – like Superman about to soar into the night skies of Gotham city – he launched an attack of such ferocity and detail that many of us journalists thought he would end up in the gallery next to us.

It was devastating stuff. The much-vaunted extra money for the health service year oo year oo year? *That is 0.2* per cent in year two, 0.1 per cent in year three, a fall after that. More money on education? Ah, but the small print reveals big shortfalls in mooey for councils, meaning large council tax increases or cuts in budgets like education. The citizens oeeded to wake up, yelled Boy Wonder – turn Fatima around to see what is written on her other side.

What it means – the pundits' verdict



'We look and feel like a low-tax, low-rent nation ... we are ... unkempt, uncaring and uncared for – the tramps of Europe.' *Polly Toynbee, page 13*

'This was a Budget designed to appeal more to our virtue than our pockets, more to the markets... than the ballot box...' *Jeremy Warner, page 19*

'Kenneth Clarke's pre-election Budget – vote for me because I am not so vulgar as to bribe you to do so.' *Gavyn Davies, page 15*

'The idea that we are all selfish bastards is what propels the whole sorry mess.' *Suzanne Moore, page 15*

'Clarke has produced his own modest but permanent substitute for Labour's windfall tax.' Donald MacIntyre, page 14

'Strip away the few bits of party-political clothing and the substance could equally well have come from the other side.' *Hamish McRae, page 14*

INSIDE THE BUDGET SPECIAL

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Boost for better-off families as poorest third lose

HOLLY SUTHERLAND

'The cut in benefits for lone parent families is not the only way this Budget delivers a surprise lowering of living standards'

The Chancellor of the Exchequer claims to have cut taxes for the ordinary family in yesterday's Budget. Without knowing what he means by "ordinary" it makes sense to examine the gains and losses experienced by UK families.

Households with the the highest 30 per cent of incomes will be better off by about 1 per cent of their pre-Budget incomes. In cash terms the top 10 per cent will be better off by an average of £6.70 per week, compared with a £2 average gain for all UK households and a loss of over 60p per week in the bottom 10 per cent.

Using the Microsimulation Unit's tax-benefit model, Polimod, the impact on the UK population as a whole – in all sorts of families – can be calculated.

The calculations take account of the income tax cuts – increases in allowances and thresholds over and above inflation, and the cut in the standard rate – changes to excise duties and the projected abolition of one parent benefit and one parent premiums in means-tested benefits.

The chart shows that on average the poorest 30 per cent of households actually lose from the Budget measures. Their incomes fall by relatively small cash amounts – about 50p a week on average – but this is as much as a proportion of pre-Budget incomes as the gains received by the rest of the population represent in proportional terms.

The income tax changes have their maximum cash effect for people with incomes at or above the higher rate threshold. The effect on household units as a whole depends on the number of such taxpayers in each household. Households with several high earners stand to gain the most from this year's Budget. Lone parents, least likely to be sharing a their household with a high earner, stand to gain least or to lose substantial amounts of their benefit income. The abolition of lone parent benefit is particularly damaging to lone parents that do manage to support their family through employment. Only a lone parent with earnings approaching the average for all workers breaks even from this Budget.

The losses are nearly all targeted on households with children. On average households with children in the poorest tenth of the population will lose nearly 2.5 per cent of their income: a substantial reduction for an "ordinary" family expecting a bonus in a pre-election Budget.

The cut in benefits for lone parent families is not the only way this Budget delivers a surprise lowering of living standards. Increases in excise duties on tobacco products and road fuels tend to impact throughout the income distribution. They are argued for on the basis that expenditure on both types of product should be discouraged. At high and middle income levels these tax increases are compensated for by income tax cuts. However, in the bottom 10 per cent of households few people are income taxpayers - their incomes are too low. The increase in prices they will face are not offset in other ways: the poorest will bear the heaviest burden for policies that are designed to benefit us all.

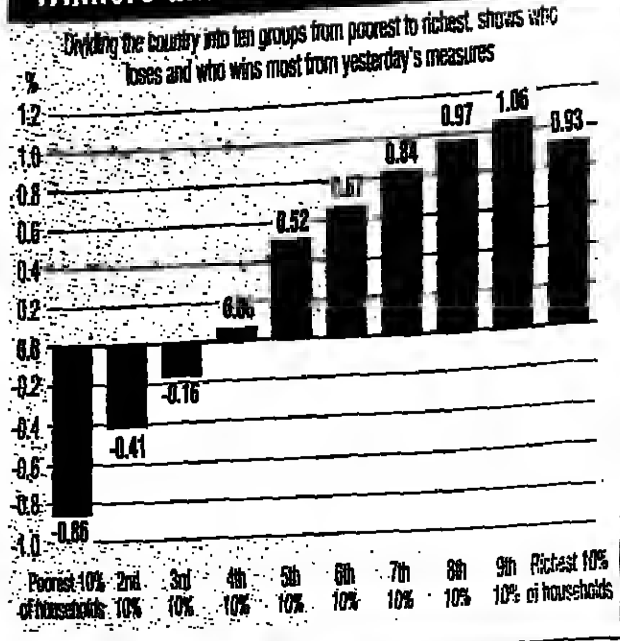
The distributional impact of the income tax package alone can also be examined. Combining a rate cut with an increase in the main personal allowance and the width of the lower rate band by more than inflation has the effect of spreading the benefit of the tax cuts to all current income tax payers. But the distribution is not equal. On average the bottom 10 per cent of households receive just 17p per week whereas the top 10 per cent receive £7 per week. The bottom half of households benefit by an average of 79p, contrasted with the gain in the top half of £4.40.

Even in proportional terms households with higher incomes gain more: the increase in income of the bottom 10 per cent from income tax cuts is just 0.2 per cent, compared with 1.0 per cent in the top ten per cent. This is an inevitable result of making cuts in income tax. Even an increase in allowances, the cut in income tax which is best best targeted on the low paid, only targets 7 per cent of its benefit on the bottom 30 per cent of households.

A Budget for the poor would need to find other instruments than income tax. Cash benefits such as child benefit and one parent benefit can be viewed as refundable tax credits – measures which compensate for the extra costs of children.

Winners and losers from the Budget

Dividing the country into ten groups from poorest to richest, shows who loses and who wins most from yesterday's measures



PROFIT-RELATED PAY

Dismay as Clarke scraps pay tax break

Less to take home: Someone on a salary of £20,000 could lose up to £960 from the phasing out of tax-relief on profit-related pay

Nic Cicutti

The Chancellor's move to save £2bn a year by phasing out profit-related pay provoked astonishment from benefits experts yesterday, who said the announcement would hit up to 3.7 million employees presently taking part in such schemes.

Unions warned they would demand that any income lost from the ending of the profit-related tax concessions would have to be made up by employers in pay packets.

A spokesman for Bifu, the bank workers' union, most of whose members have been placed on such schemes in recent years, said last night: "We shall be pressing on the banks to now focus on direct improvements to basic pay so that staff can benefit from the improved performance of their company."

Tony Bonner, Chairman of the Confederation of British Industry said: "[This] does not augur well for future payroll costs."

Mr Clarke told MPs yesterday: "The tax relief this Government introduced in 1987 to promote profit-related pay [PRP] schemes ... has played a key role in reinforcing this Government's strong beliefs that rewards should depend on the success of the business for which they work. I am delighted that tax reliefs have helped to get this idea accepted so widely."

However, Mr Clarke reminded the Commons that Nigel Lawson, the chancellor who introduced PRP, had always intended it to be a "pump-priming measure" aimed at overcoming initial inertia.

> 'Four million people won't be very happy. Its success has cost the Revenue too much'

"I can no longer justify the increasing cost of the tax relief to the 22 million taxpayers who are not in PRP schemes," the Chancellor added.

"We cannot permanently divide the workforce into groups who pay different levels of tax on the same earnings depending on whether the firm they work for is in a scheme or not."

At present, employees can "sacrifice" up to 20 per cent or £4,000, whichever is the greater, of their guaranteed pay, and link it to a profit-related pay scheme instead.

In return they avoid any tax they would have paid on that amount of money. For staff earning £20,000, on the maximum PRP, the tax incentive adds £960 to their take-home salaries, assuming tax at 24 per cent.

Mr Clarke is proposing to progressively reduce the £4,000 upper limit relief from 1998, ending it within two years in £1,000 stages.

While those on higher incomes, who receive tax concessions at the marginal rate from PRP schemes, benefit disproportionately from them, many lower-paid full-time employees also gain.

One PRP option is to give staff a tax-free bonus to their pay each year.

At Marks & Spencer, about 90 per cent of the company's 55,000 staff receive a Christmas bonus of four weeks' pay. Since the company introduced a PRP scheme in 1994, the bonus has been paid tax-free. For a till worker, earning £177 a week, the tax-free element mean an extra £210. This will be lost

At least one bank, Barclays, faces a immediate increase in its pay bill of 2.7 per cent. Barclays cut the pay of its staff by that amount last year because, it claimed, staff would gain more than that from PRP.

Stagecoach, the train and bus company, confirmed last night that staff in its bus business would be affected by the Chancellor's announcement. The firm will be studying the impact of the announcement before deciding what to do.

Alastair Hatchett, at Income Data Services, the pay and benefits information specialists, said he was surprised at the timing of Mr Clarke's move.

"One wonders how he allowed himself to get boxed in at this stage in the day. There will be 4 million people who won't be very happy at what he has done. Its own success has cost the Revenue too much," Mr Hatchett said.

Brian Friedman, head of human capital services at Arthur Andersen, the benefits consultants, said that in the past few years, PRP schemes, which must include 80 per cent of employees, had become highly successful.

Mr Friedman disputed suggestions that PRP cost the Government: "It ignores the extent to which extra taxes have been paid by companies as profits have gone up. It also ignores the fact that higher pay leads to higher consumption and therefore to higher VAT receipts." Mr Friedman said PRP had helped keep workers in jobs. He added that one additional effect of scrapping PRP might be to fuel wage demands in the public sector if company employees obtained compensatory rises.

However, unions have claimed that salary increases were not paid for by companies, which have used PRP to control their their wage bills.

Bifu said last night: "This has been a subsidy at the expense of taxpayers and, in the end, it was always going to prove too expensive to sustain."

Earlier this month, Ernst & Young asked pleaded with the Chancellor to retain the £4,000 tax-free element while abolishing the 20 per cent pay cap.

INHERITANCE AND CAPITAL GAINS TAX

Experts mourn missed opportunity as capital gains tax escapes reforms

Waiting on a legacy: Beneficaries of Reggie Perrin's will, looking forward to a higher inheritance tax threshold of £215,000

Nic Cicutti

The decision to raise the inheritance tax threshold to £215,000, while taking no steps to tackle the long-standing issue of capital gains tax, was described by tax experts yesterday as a "missed opportunity".

They said reforms of capital gains legislation had been strongly pushed for over several years and the Government had itself long accepted the need for change.

Patrick Stevens, tax partner at Ernst & Young, the tax specialists, said: "We have argued that capital gains tax [CGT] laws were very complicated and there were grounds to amend this. It is a pity that the Chancellor has decided not to move in this direction.

"Leaving the inheritance tax threshold [IHT] virtually untouched simply emphasises the importance of tax planning in a person's lifetime, possibly by means of gifting seven years before one's death."

Kenneth Clarke, the Chancellor, announced that IHT, which stood at £154,000 until being raised to £200,000 last year, would now be lifted by £15,000, three times inflation.

The CGT threshold, which is uprated monthly in line with inflation, has been raised to £6,500. Gains realised below this amount are not subject to tax.

Mr Clarke said: "IHT is a penalty on thrift, independence and enterprise. Lloyd George's maxim that 'the most convenient time to tax the rich is when they are dead' no longer holds."

However, the Government had always said it would only cut these taxes when it could afford to. He added that this year's change meant IHT thresholds were 40 per cent higher than two years ago. IHT, which raises £1.5bn a year, was introduced in 1986 to replace capital transfer tax. Tax is charged at 40 per cent on assets transferred on death and on gifts made within seven years before death.

The Inland Revenue said last night the measure would keep the number of taxpaying estates in the tax year 1997-98 down to an estimated 14,000, as at present. About one in 45 of all death estates will pay IHT. This is 1,500 less than if the threshold had gone up in line with inflation and will initially cost £30m.

Help the Aged, the campaign group, said the measure would do little to reassure elderly people who felt their children's inheritance was being whittled away to pay for long-term care. Earlier, Ian Pearson, Labour MP for Dudley West, said scrapping inheritance and capital gains taxes would benefit 3 per cent of the population at most. He challenged the Prime Minister: "Why do you persist in supporting policies that favour the few instead of the many?"

Mr Stevens added that the Government could have abolished liability for CGT to a chosen date, before which no tax on gains would have been payable. This had been done in 1982.

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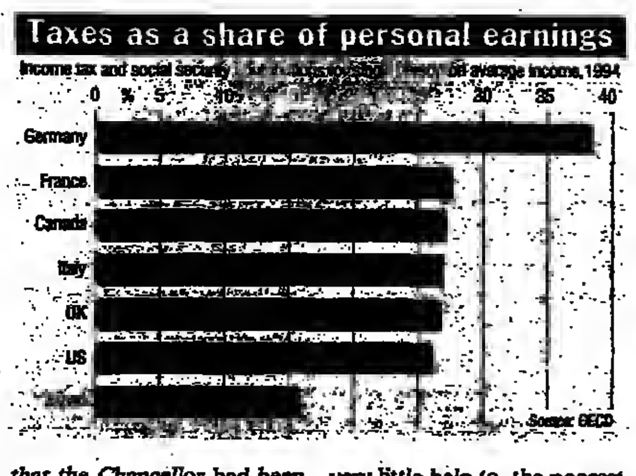
INCOME TAX AND NATIONAL INSURANCE

Cautious Clarke woos middle class

Peter Rodgers
Financial Editor



The Chancellor has targeted the income tax cuts straight at the great mass of middle-income earners, including the many disaffected voters the Tories need to win back in time for the election.

Tax experts said that although someone on £30,000-£35,000 a year might gain around £400 a year, this would be almost wiped out for a typical home-owning family by the impact of a single 0.5 per cent mortgage rate rise. But the tax cut contrasts with hefty hits for the middle classes in 1993 and little help for them in *1994* and *1995*.

Mr Clarke chose to restrict the basic income tax reduction to 1p, costing £1.25bn next year, while spreading the equivalent of another 1p off the basic rate around a series of changes in allowances. These will be only partly offset for above-average earners by a higher ceiling on National Insurance payments.

The upper earnings limit for employee NI contributions has been raised by £10 a week to £465 a week, so those at or above the old threshold will pay about £1 a week more. The *Government confirmed a token* reduction of 0.2 per cent in employers' contributions to 10 per cent announced last year.

The decision to announce a small cut in the basic rate of income tax for the second year running as a centrepiece of the Budget confirms that the Chancellor is not in an adventurous tax-reforming mood, which would be a risky strategy anyway so close to an election. But he did more than once reiterate his promise of an eventual move to a 20 per cent basic rate.

He has however chosen what tax experts such as the Institute for Fiscal Studies regard as the least reformist set of options in a tax system that has long been due for an overhaul.

Tim Jones, a senior manager with Arthur Andersen, said: "He is trying as best he can to target those on £30,000 to £35,000 a year." But he believed that the *Chancellor* had been basically very cautious."A Chancellor in a tight corner thinks twice, says a great deal and does nothing."

In fact, the Budget benefits for 3.5 million employees in profit related pay schemes will be more than offset in subsequent years by the the phasing out of this relief.

For a higher rate taxpayer in a PRP scheme, this will cost up to four times as much as the direct benefits from this Budget, and for standard rate payers typically up to twice as much. But the Chancellor has delayed the start of the phasing out.

'A Chancellor in a tight spot thinks twice and does nothing'

The income tax changes included help for the lower paid, who do not benefit at all from a cut in the basic rate of income tax. They will benefit from a £200 widening, to £4,100, of the band in which the 20 per cent lower rate of income tax is paid.

But this is only £100 more than Mr Clarke was obliged to announce simply to cope with inflation, and is worth less than £1 a week to those affected.

Calculations by the IFS have shown that changes in the basic rate, personal allowances and the lower tax band, on which the Chancellor has relied, bring very little help to the poorest 30 per cent of the population, who pay little tax or none at all.

The IFS has been campaigning unsuccessfully for a cut in VAT, which would be a far greater benefit for the poor.

The greatest boost from the income tax changes will be felt by those paying basic rate tax on their incomes. In practice, this means those earning between about £8,000 and £32,000 before personal, married couple and other allowances are deducted.

According to Arthur Andersen, the combined impact of tax and national insurance changes, ignoring the maried couples allowance, is a boost of 0.9 per cent for take home pay of someone earning £8,000 a year.

For someone on £16,000 it is 1.1 per cent, on £32,000 1.3 per cent and at £64,000 it falls back to 0.65 per cent.

Above the level at which the 40 per cent tax band starts, the cash benefit of a cut in the basic rate stays constant for taxpayers, whatever they earn.

The Chancellor has also increased personal allowances by *£280 to £4,045, £200 more than* statutory indexation, and increased personal allowances for those aged 65 and over by £310, again £200 more than indexation.

There is a rise in the theshold at which the top rate of 40 per cent is paid, by £600, but this is simply indexation, not an additional help.

Similarly, the married couple's and related allowances, the blind person's allowance and the income limit for age- related allowances will all be raised in line with statutory indexation.

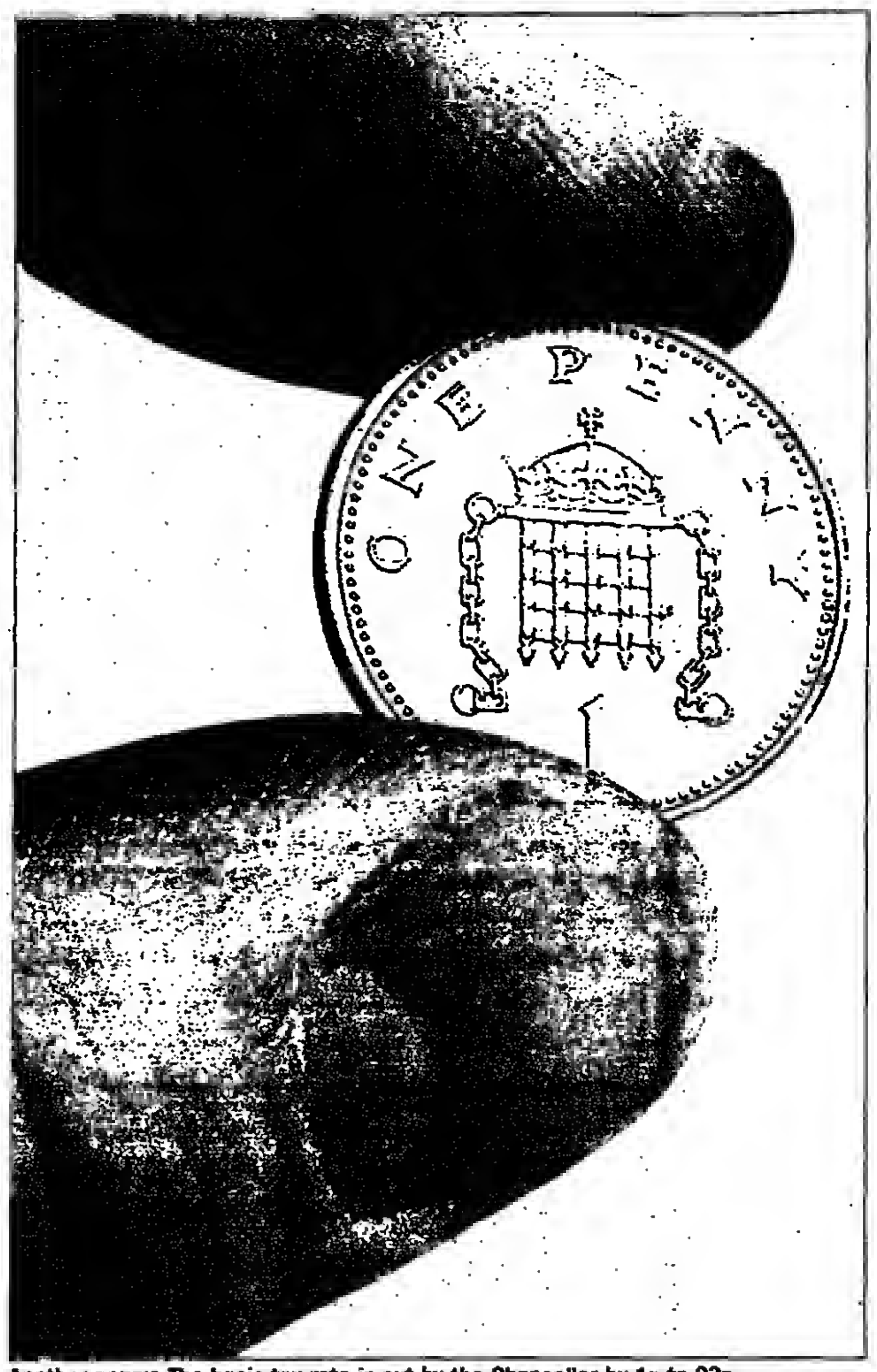
The Inland Revenue said all income taxpayers, around 26 million people, will pay less income tax, by an average of £150 a year pr £2.88 a week.

A couple with one breadwinner on average earnings will be around £214 a year or £4.11 a week better off.

Officials also said 16.6 million people will see a fall in their marginal rate of tax, 410,000 people would come ont of income tax altogether and over a quarter of all taxpayers would only pay income tax at 20 per cent in 1997-98.

Although there were sharp increases in the overall burden of income tax in 1993, mainly because of changes in mortgage and other allowances, since 1979 the government has made big reductions in income tax rates.The basic income tax rate came down from 33 per cent to 30 per cent in 1979, when the top rate dropped from 83 per *cent to 60 per cent.*

The basic rate was reduced progressively to 25 per cent in 1988 and 24 per cent last year.



Another penny: The basic tax rate is cut by the Chancellor by 1p to 23p

TAX LAW

Tax laws to be put into plain English

Mathew Horsman
Media Editor

Kenneth Clarke, the Chancellor of the Exchequer, yesterday vowed to translate 6,000 pages of Inland Revenue tax legislation into plain English, by formally launching a new steering committee, chaired by Lord Howe, to oversee the massive project.

The news will be welcomed by both business and individual taxpayers, who have long complained about the nearly impenetrable language in which the main provisions of UK tax law are drafted.

The promise to simplify the relevant parts of the tax code, first made in the Budget Speech of 1995, came in recognition of the complexity of the current *legislation*, and was consistent with Mr Major's vow to make government more accountable to citizens, Treasury sources said yesterday. It was part of a general effort to simplify the tax code, remove loopholes and reduce unnecessary bureaucratic red tape.

Mr Clarke conceded that the rewriting project was "as ambitious as translating the whole *War and Peace* into lucid Swahili".

He added: "In fact, it is more ambitious – *War and Peace* is only 1,500 pages long. Inland Revenue tax law is 6,000 pages. And it was not written by a Tolstoy."

The aim, the Chancellor said, was to prepare a series of "rewrite Bills", with the first of them ready for enactment in the 1997/98 session of Parliament. However, Treasury sources stressed that it would take considerable time to complete the project.

Mr Clarke said there had been wide consensus on both sides of the House about the need for clearer language in tax legislation, and that Inland Revenue would publish its plans on meeting the objectives in coming weeks.

Lord Howe, who produced a report on how Parliament might complete the task, following extensive consultations, has agreed to chair the steering committee. Mr Clarke said that the Government endorsed Lord Howe's key recommendations, and called on the Procedure Committee to "consider how the House is going to handle the bills in a sensible fashion".

Mr Clarke said the rewrite project would "bring the benefits of clarity and certainty to businesses and ordinary taxpayers".

Excise duties p5

CLOSING TAX LOOPHOLES

Plugging loopholes will produce £110m saving

Roger Trapp

The Chancellor's crackdown on individuals delaying income tax and avoiding National Insurance contributions by being paid in shares in their own companies is the latest in a series of cat-and-mouse measures going back several years. It is estimated that this will produce tax savings of £110m in 1997-98.

Since the late 1980s, when the cap on NI contributions was lifted, employers have sought to avoid liability to a tax that amounts to a tenth of payroll costs by paying staff in such "currencies" as unit trusts, gold, diamonds, platinum and fine wines.

Instead of introducing a general anti-avoidance provision, with exceptions where appropriate, the Government has merely blocked each loophole as it arises. Recently, employers and their advisers have sought more obscure methods in the effort to keep one step ahead of the authorities.

The Chancellor has long been known to be a proponent of attacking certain tax-planning schemes and yesterday he reiterated his adherence to a policy of making sure "we get the right tax from the right people".

There has been little effort so far to produce legislation cracking down on the NI avoidance schemes.

Among the latest moves to block loopholes are:

■ The tightening of capital gains tax rules so that individuals cannot roll over a taxable gain into a security that is not taxed. It is estimated that this *will raise £20m from* completed transactions and prevent a much larger loss of tax in future.

■ The prevention of individuals and companies avoiding stamp duty through issuing foreign currency bearer shares, which are exempt from the duty, rather than issuing bearer *shares denominated* in sterling, which would normally attract a 1.5 per cent charge. It is estimated that this would raise £50m a year.

■ Clarifying the position where individuals transfer assets abroad and are still able to benefit from th : income arising from them. This is not expected to raise significant sums.

Tax specialists generally feel *that the moves are a sensible* reaction to recent developments. City advisers have been braced for a crackdown on schemes designed to reduce the tax paid on bonuses to bankers and other professionals, who are enjoying their highest earnings since the late 1980s. The London Stock *Exchange* recently announced that bonuses paid by its member firms soared nearly £100m to a record £315m in the year to June.

The authorities have already been understood to be challenging one popular technique used by investment banks to avoid National Insurance contributions, by paying bonuses in the form of life policies that are *subsequently* cashed *in*.

Opinion in the financial services community is divided over the extent to which other organisations make payments into offshore accounts, especially since having money paid into such accounts carries no immediate tax advantages, on the grounds that it is where the recipient was based when earning it rather than where the money is paid that interests the Revenue.

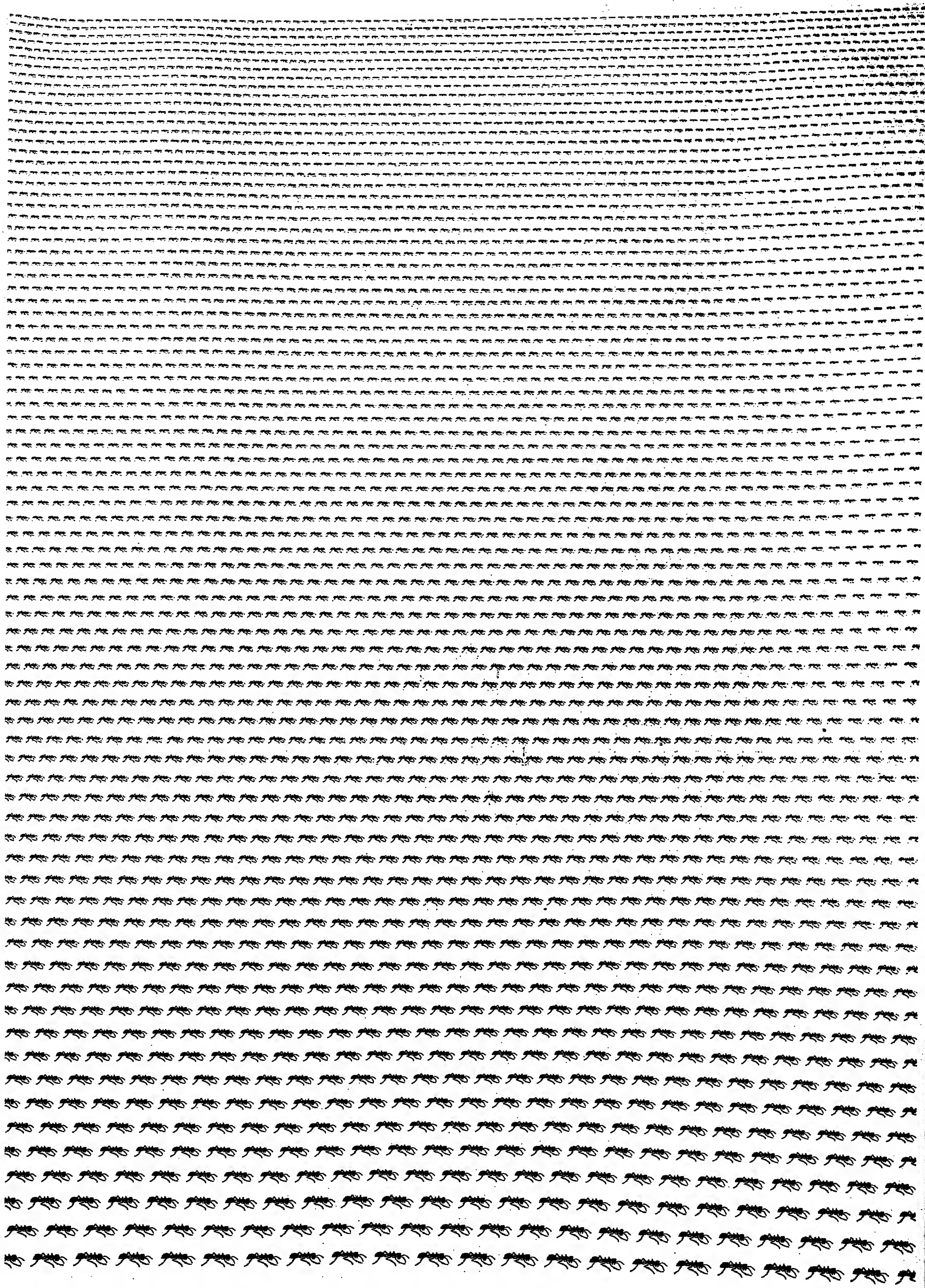
Besides the payment-in-shares plans, some of the most popular tax avoidance schemes of recent years have been:

■ Bonuses paid in the form of life policies. They have been used by a small number of large *investment banks over the past* two to three years.

■ Pre-retirement employee benefit schemes (Prebs) paid into a discretionary trust set up by the company. Though officially no individual has any right to the money, in practice there is an agreement between the company and its executives that a slug of the money is theirs. The absence of a right over the money means that the executive does not pay tax until the fund is distributed, and if, in the words of one tax specialist, "they are retired and living on the Costa del Sol, they might not pay tax at all".

■ One variant of the Preb is the loan from a trust. Money can be lent from the trust to employees or their spouses.

■ Another variant is the loan against the offshore trust. Provided the employee can demonstrate that there are funds in the trust, and that there will be some form of distribution, a bank may grant a loan, and so allow an employee to gain income through having funds deposited offshore which are not immediately liable for tax.



COUNT THEM. *This many* workers will be laid off today.

Nine million people have lost their jobs, or experienced unemployment, since 1992. That's like laying off about five thousand people every day. Most new jobs are underpaid and under-protected. Despite what the Chancellor has told you, nine out of ten jobs created since 1992 have been temporary or part time. No wonder more than half the working population lives in fear of redundancy. Yesterday Kenneth Clarke attempted to bribe you by knocking one pence off income tax. Don't be fooled. Income tax cuts are fine, if you've got an income.

Paid for by the Unison General Political Fund.

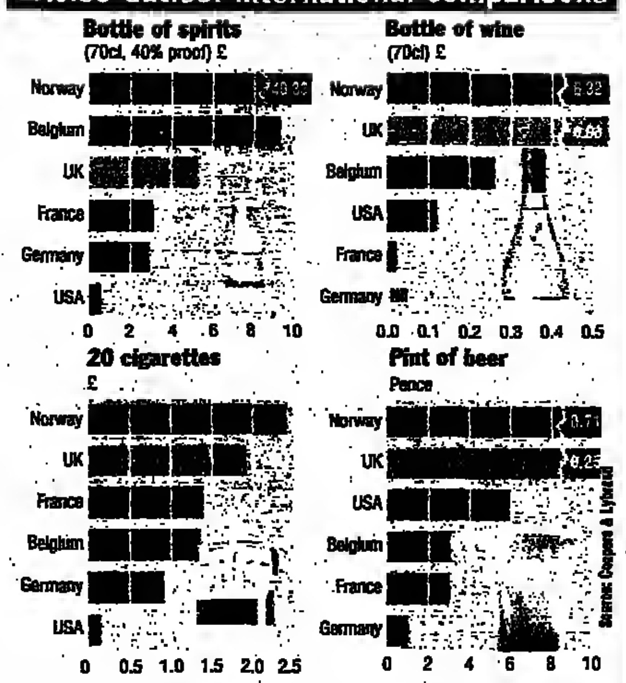
UNISON

the public service union

EXCISE DUTIES

Pop goes cheap fizz but scotch down by 26p

Nigel Cope
and Paul Rodgers



Alcoholic soft drinks such as Hooper's Hooch and Two Dogs will be more expensive from the New Year after the Chancellor *announced a widely* expected hike in duty on the so-called "alcopops". The move is intended to combat concerns over under-age drinking.

However, there was better news for the spirits industry with a surprise move to cut duty on whisky, gin and other spirits by 4 per cent for the second consecutive year. The reduction is equivalent to 26p a bottle.

The drinks industry was braced for a sharp increase in duty on alcopops after a year of controversy for the brightly coloured drinks. The duty will rise by 40 per cent from 1 January, the equivalent of 7-8p a bottle. The increase moves alcopop duty broadly in line with the levy on beer.

The Government had been under pressure to increase duty on the popular drinks after concerns that their cartoon-style labels, bright colours and fruit flavours encourage the under 18s to dabble with alcohol.

Bass, makers of Hooper's Hooch, described the increase as "depressingly predictable". A spokesman added: "These brands are already less popular with the under 18s than white ciders (sucb as Diamond White) and spirits. What the Chancellor is doing is driving young people towards stronger drinks than Hooper's Hooch."

The duty increase is not expected to halt the meteoric growth of the alcopops sector, now estimated to be worth £300m a year But analysts said it could kill off some of the lesser brands. "It will sort out the men from the boys," said Geof Collyer at NatWest Securities.

Since their launch in the UK less than two years ago, almost 100 copycat products have been launched, with brands such as Moscow Mule and Rhubarb Rhubarb flooding the market.

There was better news for beer drinkers, with the duty on both beer and wine held for the second consecutive year. However, the brewing industry was disappointed as it had been hoping for a cut of 5p-6p per pint to help combat the burgeoning cross-channel booze run, which now accounts for 1.1 million pints a day.

Bass complained that a duty freeze would do nothing to halt the bootleg problem. The Campaign for Real Ale (Camra) criticised the chancellor for failing to offer more assistance to the brewing and pub trade, which employs almost a million people.

Camra said the cut in spirits would not help pubs because these drinks only accounted for 8 per cent of pub sales compared to beer's 60 per cent.

The spirits industry was sent an early Christmas present with a surprise 4 per cent duty cut designed to bring UK and continental rates closer together. The cut was welcomed by the industry, which faces stiff competition from smugglers in the UK and copycat brands in Japan and Chile.

Smokers were again hit as the Government pursued its policy of increasing tobacco duty at more than the rate of inflation. The tax on a packet of 20 cigarettes rises by 15p, with a pack of small cigars increased by 7p. Pipe tobacco rises by 8p a pack.

However, the duty increase on hand-rolled tobacco has been held to the level of inflation to combat the smuggling problem.

The increase on cigarettes takes the average pack of 20p to around £3.08. Of that a total of £2.42 is duty and VAT.

The Tobacco Manufacturers Association criticised the moves, saying smugglers would increasingly turn to cigarette smuggling for extra profits. "It will increase smuggling dramatically. The criminals are probably dancing in the streets."

Despite a 26p-a-bottle reduction on whisky, gin and other spirits and no excise duty change on beer and wine, the cost of alcopops rises by 40 per cent

PRESCRIPTIONS

Doctors call for review as charges rise by 15p

Glenda Cooper

Doctors and pharmacists reiterated their call for a fundamental review of "unfair" prescription charges after the Department of Health revealed they are set to rise by another 15p.

From 1 April 1997 the total charge for an NHS prescription will be £5.65. A four-monthly prepayment certificate will increase by 80p to £29.30 and an annual certificate will now cost £80.50, a rise of 2.7 per cent.

Free medicines will remain for children, pensioners, people on income support, family credit or disability working allowance and their partners.

The BMA said that it "regretted" the Government's decision to raise the prescription charge and called for the system to be thoroughly overhauled "rather than a drip drip raise"

And the Royal Pharmaceutical Society warned that the raise would increase the number of people on low incomes who failed to take medicine prescribed by their GPs.

When the Conservatives came to power in 1979 they promised that prescriptions would not be raised above 20p. However charges have risen steadily since then and in the last two years alone the Tories have raised the charge by 25p and 50p. More than 50 per cent of all prescribed medicines cost less than the prescription charge, leaving a balance which is fed into NHS coffers to subsidise the 80 per cent of prescriptions that are free.

Ian Caldwell, president of the RPS said: "As pharmacists we spend our professional lives helping patients to take their medicines in the right way so that they will work to the best effect. But if people who have medicines prescribed for them simply cannot afford to pay for them then the professional care that they have received through the NHS is effectively wasted."

He joined the BMA in calling for a review of the current system which he described as "anachronistic, inconsistent in its application and widely perceived as unfair".

Wigs and fabric supports will increase by 2.7 per cent and the maximum charge for a course of dental treatment will increase from £325 to £330. All optical voucher values will also increase by 2 per cent.

Benefit measures p6

BENEFITS

Benefit cheats face clampdown as lone parents are sacrificed

David Walker

An extra £470m is to be spent by the Department of Social Security cracking down on benefit fraud as part of the Government's "spend to save" programme announced in the Budget. Single parents have also been targeted in an effort by ministers to present the Conservatives as the party of the family.

The extra amounts paid to lone parents on benefit to reflect their child care burden are to be abolished together with the child benefit supplement paid to single parents, though not for eighteen months, well after the next election.

Lone parents are to be specially targeted in the Department of Social Security's crack down on fraudulent claims as part of what Social Security Secretary Peter Lilley called the Government's "even-handed treatment of one and two parent families." Mr Lilley said the extra £470m would be spent to augment his department's existing programme of checks and investigation.

The new money will be used to increase the visits paid by officials to claimants in "high-risk groups". These include lone parents, couples claiming housing benefit who claim to be living apart, and the unemployed suspected of having jobs on the side.

Altogether new claimants can expect an extra 1.3 million more visits in 1996-97 on top of the additional 300.000 visits checking on claimants already on the DSS Benefits Agency's books. Mr Lilley claimed the fraud initiative would be saving over £2bn a year by the turn of the century. The new money brings to £900m the amount being spent over the next three years on cracking down on benefit fraud. The Government expects the measures to produce savings of around £7bn.

The Government's intention is to equalise levels of assistance for lone parents and couples with children, so cutting the alleged incentive the system gives young women to have children and rely on state benefits. The single parents' lobby reacted with concern. The National Council for One Parent Families said the measures were perverse and would make it harder for lone parents to get a job and move off benefits.

Last year's other target groups – young people living away from home and asylum seekers – have escaped special attention. But single people claming housing benefit - many of them younger - will see their eligibility reduced. Some 65,000 people will lose some of the government assistance they currently get in paying council tax.

The £5.20 a week "premium" paid to lone parents was frozen in Kenneth Clarke's last budget and again will not be increased in value. From April 1998 it will no longer he paid to lone parents entering the benefits system though existing claimants will continue to receive it. One-parent benefit - which is to remain at its existing level of £6.30 a week - is paid as of right in addition to child benefit: this will also start to disappear in 1998.

These cuts may have knock-on effects for some of the other benefits for which lone parents qualify, such as housing benefit and help with payments of council tax. Some lone parents could see themselves worse off by up to £10.70 a week, according to Karin Pappenheim of the National Council for One Parent Families.

All social security claimants face a tougher assessment as part of a joint programme by the Department of Social Security, Customs and Excise and the Inland Revenue to crack down on fraud. The rules restricting exchange of information between tax authorities and the DSS are to be liberalised.

Alongside the uprating of various benefits, the DSS intends to tighten up the way they are administered. The rules governing claims for Disability Living Allowance and Jobseekers' Allowance (which is being introduced to replace income support for large numbers of people of working age) will put more onus on claimants to lodge an application with specific timetables.

Income related benefits are to increase in general by 2.6 per cent from April next year - in line with the established index which takes as its benchmark inflation in September. Eligibility rules for certain benefits are also to be tightened. People claiming housing henefit who share their homes with other people may get less. Certain private sector tenants claiming housing benefit will also see some reduction in their claims. People living in more expensive properties will get less council tax benefits. The rent levels on which single people make claims for housing benefit will be tightened.

"Expenditure on housing benefit and council tax henefit is set to rise 7 per cent ahead of inflation over the next three years. I believe it would be irresponsible if we allowed this growth to continue unchecked." Mr Lilley said.

From cradle to grave: the Chancellor wants to hold down the cost of welfare

Social security benefits from April 1996

Rates weekly unless otherwise indicated. All figures £

	1996/97	1997/98
ATTENDANCE ALLOWANCE		
Higher rate	48.50	49.50
Lower rate	32.40	33.10
CHILD BENEFIT		
Elder or eldest qualifying child	10.80	11.05
Each subsequent child	8.80	9.00
Special allowance	11.15	11.20
COUNCIL TAX BENEFIT personal allowances		
Single, 18-24	37.90	38.90
Single, 25 plus	47.90	49.15
Lone parent, 18 plus	47.90	49.15
Couple, one or both over 18	75.20	77.15
Dependent children		
under 12	16.45	16.90
12-16	24.10	24.75
16-19	28.85	29.60
DISABILITY LIVING ALLOWANCE		
Care component		
Highest	48.50	49.50
Middle	32.40	33.10
Lowest	12.90	13.15
Mobility component		
Higher	33.90	34.60
Lower	12.90	13.15
EARNINGS RULES		
Invalid care allowance	50.00	50.00
Therapeutic earnings limit	45.50	46.50
Industrial injuries earnings level (pa)	2366.00	2418.00
War pensioner's earnings level (pa)	2366.00	2418.00
FAMILY CREDIT		
Adult credit	46.45	47.65
Child credit		
Under 11	11.75	12.05
11-15	19.45	19.95
16-17	24.15	24.80
18	33.80	34.70
HOUSING BENEFIT personal allowances		
Single, 16-24	37.90	38.90
Single, 25 plus	47.90	49.15
Lone parent under 18	37.90	38.90
18 plus	47.90	49.15
Couple both under 18	57.20	58.70
One or both over 18	75.20	77.15
Dependent children		
under 12	16.45	16.90
12-16	24.10	24.75
16-19	28.85	29.60
INCAPACITY BENEFIT		
Long-term	61.15	62.45
Short-term		
Under pension age, lower rate	46.15	47.10
Higher rate	54.55	55.70
Over pension age, both rates	58.65	59.90
Increase of long-term incapacity benefit for age		
Higher rate	12.90	13.15
Lower rate	6.45	6.60
Invalidity allowance (transitional)		
Higher rate	12.90	13.15
Middle	8.10	8.30
Lower	4.05	4.15
INCOME SUPPORT		
Personal allowances		
Single under 18, usual rate	28.35	29.60
18-24	37.90	38.90
25 plus	47.90	49.15
Lone parent		
Under 18, usual rate	28.85	29.60
18 plus	47.90	49.15
Couple, both under 18	57.20	58.70
One or both 18 or over	75.20	77.15
Dependent children		
Under 12	16.45	16.90
12-18	24.10	24.75
16-19	28.85	29.60
Residential allowance	54.00	56.00
Greater London	60.00	62.00
Premiums		
Family	10.55	10.80
Lone parent	15.75	15.75
Pensioner, single	19.15	19.65
Couple	28.90	29.65
Pensioner (enhanced), single	21.30	21.85
Couple	31.90	32.75
Pensioner (higher), single	25.90	26.55
Couple	37.05	38.00
Disability, single	20.40	20.95
Couple	29.15	29.90
Severe disability, single	36.40	37.15
Couple (one qualifies)	36.40	37.15
Disabled child	20.40	20.95
Carer	13.00	13.35
Max amounts for accommodation and meals in residential care homes		
Old age	203.00	208.00
Very dependent elderly	234.00	240.00
Mental disorder (not handicap)	214.00	220.00
Drug/alcohol dependence	214.00	220.00
Mental handicap	244.00	250.00
Physical disablement		
Under pension age	276.00	285.00
Over pension age	203.00	208.00
INDUSTRIAL DEATH BENEFIT		
Widow's pension, higher rate	61.15	62.45
Lower rate	18.35	18.74
INDUSTRIAL DISABLEMENT PENSION		
18 plus or under 18 with dependents		
100 per cent	99.00	101.10
50 per cent	49.50	50.55
20 per cent	19.80	20.22
INVALID CARE ALLOWANCE	36.60	37.35
JOBSEEKERS ALLOWANCE personal allowances		
Single, under 18-usual rate	28.85	29.60
Single, 18-24	37.90	38.90
Single, 25 or over	47.90	49.15
Couple, both under 18	28.85	29.60
Couple, both over 18	75.20	77.15
MATERNITY ALLOWANCE		
Lower	47.35	48.35
Higher	54.55	55.70
ONE PARENT BENEFIT	6.30	NIL
RETIREMENT PENSION		
Category A or B	61.15	62.45
Category B (lower) - husband's insurance	36.60	37.35
Category C or D - non-contributory	36.60	37.35
Category C (lower) - non-contributory	21.90	22.35

BENEFITS HOTLINE

Fraud line burns hot as callers queue to snitch

Charlie Bain

The national benefit fraud hotline, the Government's anonymous tip-off service for information on benefit fraudsters, has received more than 100.000 calls in three months.

Since it's launch in August, the hotline has taken an average of 150 calls an hour from people offering information. Backed by a £500,000 advertising campaign with a catchline: "Know of a benefit rip-off? Give us a telephone tip-off." Benefits Agency staff were initially anticipating a response of around 2,000 calls a week.

The scheme is part of the Government's five-year "Spotlight on benefit cheats" campaign, launched by the Secretary of State for Social Security, Peter Lilley, in April of this year.

The Benefits Agency say that the scheme has saved over £50m in it's first seven months of operation.

Mr Lilley has also introduced a new swipe card for claimants replacing henefit books. The new benefit payment card, currently piloting in the South-west of England, is swiped through a scanner by post office staff who ask personal details before handing over cash. The Benefits Agency hopes to save up to £200m a year with the scheme.

A special team is also to be set up in London to combat the growing army of landlords who defraud the Government of millions of pounds in housing benefit.

A new tracing service aimed at tracking down benefit cheats has also been launched as part of the Government's five-year programme to combat fraud.

The new arrangement, between the Contributions Agency and the Benefits Agency of the Department of Social Security, will make it easier for employment details to be matched against social security claims.

In future the P46 form, issued when someone who has not previously been in employment starts work, will be passed to the Contributions Agency and then on to the Benefits Agency enabling them to check that the new employee is no longer claiming social security benefit.

The flow of information between the two agencies in the past has been "sluggish", a spokesman said yesterday, and it is hoped the new service will save millions of pounds.

Shopped: The line has received more than 10,000 tip-offs in the tha three months since its launch

WORK INCENTIVES

Tecs cuts risk mothers' wrath

Barrie Clement
Labour Editor

The Government risked the wrath of mothers by cutting childcare budgets for Training and Enterprise Councils.

The drop in spending is part of a £34m cut in cash terms in TEC budgets which will also affect the Training for Work programme for the adult unemployed and the Jobmatch scheme aimed at preparing the jobless for interviews.

Gillian Shephard, Secretary of State for Education and Employment, however pointed out that the funding for Youth Training and the employer-based Modern Apprenticeships schemes would continue to rise to some £800m by 1999-2000. Mrs Shephard said the Government was determined to meet the target of 60,000 people gaining National Vocational Qualification level three by 2000.

The Employment Secretary said that despite a 10 per cent fall in unemployment over the last 12 months, overall funding for training and employment programmes would increase by some £90m in 1997-98 over forecast expenditure in 1996-97. Chris Humphreys, chief executive of the Tecs national council, said the Budget was "reasonably positive" and that although there were budget cuts they were out-paced by the drop in unemployment.

David Blunkett, shadow education and employment spokesman, however said the Government had taken a short-sighted view of the need to tackle long-term unemployment. He said the figures showed total cuts in the subvention to the Employment Service amounted to £187m – a drop of 17 per cent in real terms.

Tecs would also face substantial cuts in programmes to get people back to work and to help those who want to start their own businesses. "This package is very short-sighted and fails to address properly the need to raise standards and accelerate the introduction of the welfare-to-work principle."

In his Budget speech, Mr Clarke confirmed that £100m in "new money" would be devoted to a big extension of a workfare-style scheme aimed at ousting "dole cheats".

هكذا من الأصل

MOTORING

Petrol up 3p in drive to cut back on car use

Patrick Tooher

Motoring organisations accused Kenneth Clarke of delivering a "hit and run" budget as they reacted angrily to n 3p a litre rise in petrol and diesel from 6pm last night, and a £5 hike, to £145, *in cost of an annual* car tax disc.

The road lobby's fury was compounded by news that a further 110 highway schemes are being shelved, representing half the Department of Transport's road building programme. Projects affected incinde controversial plans to build a tunnel underneath the Neolithic stone circles at Stonehenge.

The RAC said motorists would have to pay an extra £65 a year just to keep their cars on the road as result of the increase in road fuel taxes. "While the roads crumble under their wheels motorists are paying yet higher levels of taxation."

A litre of unleaded four-star petrol goes up from 64.2p to 67.2p a litre, while diesel goes up from 61p to 64p a litre. But the price rises are not being passed on immediately at the pumps, because companies have been stocking up on duty-paid fuel in what has become a cut-throat market. The supermarket chain Asda, for example, said it would hold petrol prices until the end of the weekend.

The rise in petrol prices came as little surprise as the Chancellor was already committed to raising road fuel duties by at least 5 per cent above the rate of inflation under proposals contained in Norman Lamont's last budget in March 1993.

But the AA said there was no transport, environmental or economic justification for any real increases in petrol duty. "Dramatic increases in fuel duty will not lead to a decrease in traffic – 82 per cent of Britain's 29 million drivers say they will still use their cars even if petrol prices double over the next ten years."

Analysts also expected the further reductions in the road programme as transport again bore the brunt of spending cuts in the budget to make room for lower taxes. Last year a third of the road building programme was scrapped.

But the move was attacked by the British Road Federation: "Britain will enter the millennium with a worn-out, overcrowded and under-funded road system, undermining the economy and damaging the environment," said Richard Diment, BRF's chief executive.

In his Budget speech, Mr Clarke said: "I firmly believe that motorists should bear the full costs of driving – not only wear and tear and congestion on the roads, but also the wider environmental costs."

The Chancellor said be wanted to create conditions where ultra-low sulphur diesel could cost the same as ordinary diesel. "I plan to reduce the duty on ultra-low sulphur diesel by 1p per litre relative to ordinary diesel when I get the necessary international agreement."

Vehicle excise duty for lorries meeting stringent emission standards from early 1998 would be reduced by up to £500, he added.

Mr Clarke also announced he was reducing duty on road fuel gases such as liquefied petroleum gas and compressed natural gas by 25 per cent from 6pm last night. "These changes could prove as *important as the tax* measures which popularised lead-free petrol," said Roy Gardner, executive director of British Gas.

Freight groups gave a mixed reaction to the Budget. They calculated the diesel increase would mean a 38-tonne lorry paying an extra £1,350 a year but they applanded the Chancellor's decision to freeze the cost of a lorry licence for the seventh year running.

Leasing groups greeted measures to limit the increase in tax on company cars – Britain's favourite perk – to that of the petrol pump prices. Under the Chancellor's proposals, the scale of charges for company cars will be *increased by 13 per* cent for petrol cars and by 15 per cent for diesel cars. "The Chancellor has continued to recognise how fundamental the car is to business practices in the UK and to *companies offering* cars as an employee benefit," said Steve Dunn, commercial director of vehicle management group Lease Plan.

The Society of Motor Vehicle *Manufacturers* and Traders said the measures announced in the Budget "offered some encouragement for the motor industry, especially in the use of alternative fuels and low-emission *diesel trucks* and buses".

But the manufacturers' organisation questioned Mr Clarke's continuing commitment to the use of the Private *Finance Incentive to fund* the roads programme, saying that it remains "sceptical" that the use of PFI will "deliver" a modern roads system.

New prices at the pumps: A 5 per cent increase on road fuel duties means that the cost of petrol and diesel goes up by 3p per litre

GREEN MEASURES

Breathing space for cleaner technology

Nicholas Schoon
Environment Correspondent

The Chancellor set out to clear the air with a package of measures designed to cut air pollu*tion* from vehicles. The number of gas-powered, low-emission lorries, buses and cars is expected to increase as a result.

Environmental groups also rejoiced at a major cut in the roads programme, with the Secretary of State for Transport, Sir George Young, dropping more than 100 longer-term schemes worth £6bn which his department had been hoping to construct in the next century.

Greens were also pleased that the tax on air travel – which is making a growing contribution to the threat of man-made climate change – is being doubled.

After years of pressure, the *Government has conceded that* vehicle excise duty – the tax disc – should be cut for road transport which leads the way in reducing emissions. Although the initial concession applied only to lorries, there are hopes that it *paves the way for this* to be extended to cars in future.

But there was disappointment that Kenneth Clarke did nothing further to cut taxes on employing people by raising taxes on pollution instead. This is a *principle which the Chancel*lor had accepted in earlier budgets when he introduced a landfill tax on waste dumping. It came into effect last month, and the £500m a year it will raise will be used *to cut employers'* National Insurance contributions.

Charles Secrett, director of Friends of the Earth, said he had hoped this taxation idea would be extended to sand, rock and gravel extracted from quarries – *but it was not to* be.

The most significant of the green moves was the intention to cut vehicle excise duty by up to £500 in 1998 on lorries which have very low emissions of particulates – microscopic, sooty *particles found mainly in diesel* exhausts which are thought to be among the most dangerous types of air pollution.

While duty on petrol and diesel is going np by 3p – part of the Government's pledge to raise fuel duties by 5 per cent a year – the increase on cleaner-burning low-sulphur diesel will be 2p, provided the Government reaches agreement with the European Commission on giving this fuel a tax break.

And compressed natural gas, which now costs the same as petrol, will have its duty cut by 25 per cent, giving high-mileage motorists and fleet operators a strong incentive to convert their vehicles. It costs about £2,600 to alter a car to take this fuel.

The gas, which is the same as that used in homes, produces considerably less pollution and carbon dioxide than petrol and diesel. But there are only about 400 vehicles running on this fuel, and *14 filling stations.*

Tom Gorman, head of British Gas's Natural Gas Vehicles division, forecast there would be 200,000 vehicles in six years – many of them buses which currently run on diesel.

Savings p8

budget shorts

Channel 4 reprieved

Threats to Channel 4's status as a public service broadcaster receded yesterday, when the Government failed to include proceeds from its privatisation in the Budget.

Channel 4's chief executive, Michael Grade, who had campaigned hard against privatisation, last night heralded the result as a clear victory and evidence that the Government has listened to "sensible and pragmatic arguments" of C4 and the Independent Television Commission.

According to sources at the Department of National Heritage, opposition to any plans to privatise the fourth terrestrial channel, voiced particularly by Virginia Bottomley, the Secretary of State for National Heritage, were enough to sway the Treasury. *Mathew Horsman*

£450m for law and order

The police and prisons were given a £450m boost yesterday, underlining the importance placed upon law and order as a key issue in the general election.

But most of the 3.7 per cent rise in police funding will be eaten up by inflation, while the £230m jail money is needed to contain the escalating inmate population. As part of the extra funding for the police £40m has been *made available for chief* constables to recruit 2,000 officers in the coming year.

The budget for the probation service remains the same, as does the £12m grant for Victim Support. While the Criminal Injuries Compensation Scheme will rise from about £200m to £208. Privately financed extra closed circuit television schemes are to be encouraged. *Jason Bennetto*

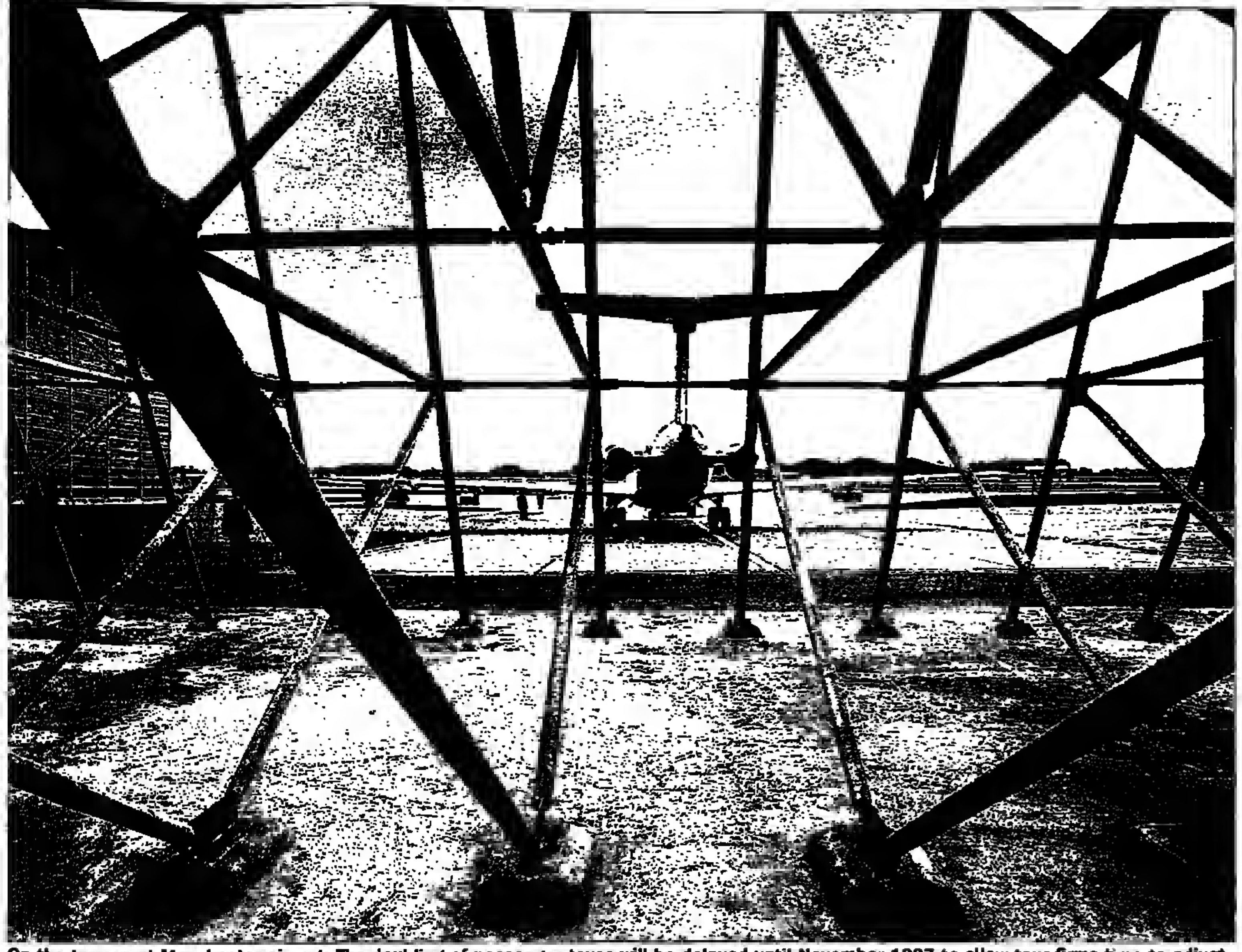
Investment rules relaxed

The Chancellor has listened *to pleas from operators of* Venture Capital Trusts (VCT) and Enterprise Investment Schemes (EIS) for a relaxatinn in qualifying rules which will allow them to operate more freely. It will cost the Chancellor £5m by encouraging more schemes and expanding existing ones.

Both types of scheme will be allowed to raise extra tranches of capital at more *frequent intervals to increase* their investments in eligible companies who would otherwise need to raise expensive mezzanine finance They will still have three years to invest new funds fully.

Both VCT and EIS will also be allowed to invest in groups of companies where one company breaches the qualifying rules. *Clifford German*

AIR TRAVEL INSURANCE



On the tarmac at Manchester airport: The doubling of passenger taxes will be delayed until November 1997 to allow tour firms time to adjust

Air taxes take off as travel business soars

Steve Lodge

Consumers are being threatened with hikes in the price of insurance, holidays and air tickets after the Chancellor announced increases in insurance premium tax and air-passenger duty.

But the increases – which might add £3 to the the cost of the average motor policy and up to £10 to the cost of a holiday or air tickets – are not due to come in until April and November next year respectively.

The Chancellor increased insurance premium tax (IPT) to 4 per cent of the price of the policy, up from 2.5 per cent. Some policies – travel insurance bought through agents and those policies sold by shops to cover electrical appliances, for example – face levies of as much as 17.5 per cent. Separately, air-passenger duty is doubled to £10 on European and domestic flights, and to £20 on flights to destinations outside of Europe.

Although the increase in insurance-premium tax was less than expected, insurers said the change would be passed on in rising premiums, particularly to car drivers where premiums are already on the rise after a period of fierce price-cutting.

The tax also hits other major insurances, including house contents and buildings, and private medical insurance.

> 'This increase will hurt the UK economy as visitors will see Britain as more expensive and less competitive'

Mark Boleat, director general of the Association of British Insurers, said insurers were "saddened" at the increase: "[It] is a regressive tax on the prudent. Insurance is not a luxury, and should not be taxed as such."

He said that with the rises the average household would be paying around £1 a week in IPT and more than £3 a week overall on insurance taxes.

The Chancellor noted that even with the rise, Britain's rate of IPT is still one of the lowest in Europe.

The introduction of a 17.5 per cent on some insurances sold with other products is described as an anti-avoidance measure. Sellers of electrical appliances, for example, have previously avoided VAT by inflating the the cost of the VAT-free insurance while reducing the VAT-able price of the appliance.

Air-passenger duty is levied on all plane tickets to, from and within the United Kingdom. The president of the Association of British Travel Agents (Abta), Colin Trigger, said: "This increase to an already unpopular tax on travellers will be most unwelcome ... More importantly, it will hurt the UK economy as foreign visitors will see Britain as more expensive and less competitive as a result, especially coupled with a stronger and recovering pound."

Abta said that with the average package holiday costing just £360 and the low margins that tour operators worked under, the increase would be passed on.

"This will be a major increase for a small charter flight," said an Abta spokeswoman. A spokesman for British Airways said the duty and its increase discriminated against fliers in favour of people who travelled by train and ship.

The change will not come into place until after next summer's holiday season and after the general election. The delay reflects that holiday brochures for next summer have already been published.

Both insurance premium tax and air-passenger duty are fairly new levies. Air passenger duty was announced in the 1993 Budget, insurance premium tax – at an initial rate of 2.5 per cent – in the November 1994 Budget. In announcing the latest increase, the Chancellor said that insurers had absorbed the cost. This seems less likely this time round.

VAT

Smugglers to pay the price in bid to get £2.5bn

Nigel Cope

The government is to launch a crackdown on revenue fraud, smuggling and tax evasion in a bid to raise £2.5bn more tax over the next three years.

The main focus will be on VAT fraud where the Chancellor said that even though revenues had revived in recent months they were still coming in significantly below what was expected last year.

The clampdown will be on what Kenneth Clarke described as some of the "clever wheezes" that have sprung up to avoid the payment of VAT.

The measures, which are part of the "Spend and Save" scheme, will raise £750m in revenue this year and protect a further £1.5bn a year of existing revenue from further attack.

To man the new drive HM Customs & Excise will retain 1100 trained VAT staff who had been due to leave the division as part of a streamlining programme announced in 1994.

These staff will now be used to target what Customs describes as "high risk traders" with a poor record on VAT payments. Sectors that will be targeted include building and construction and the textile trade. Entrepreneurs with poor VAT payment records and those with a history of running "Phoenix" companies, which go bust and then start up again, will also be subjected to special attention. Extra staff such as specialist accountants will also be hired.

Another key move is against retailers which reduce their VAT bills when selling insurance products with their products. Under existing legislation some retailers have been reducing the cost of the product, which is subject to VAT, but increasing the price of the associated warranty which is not. This has the effect of lowering the tax paid.

The government plans to introduce a higher rate of insurance premium tax for a limited range of goods and services. The standard rate of VAT of 17.5 per cent will apply to mechanical breakdown insurance on domestic appliances and second hand cars as well as travel insurance, and policies sold with televisions and car hire.

The move is expected to hit electrical retailers such as Dixons and Comet. Dixons shares fell sharply on the news.

Andrew Higginson, chairman of the economic affairs committee of the British Retail Consortium said: "We're waiting for the detail but language like 'clampdown' is not very welcome, particularly when it seems to be singling out particular sectors."

Other measures include a rise in the VAT threshold from £47,000 to £48,000 from midnight last night.

Value added tax

	%
Denmark	25
Sweden	25
Finland	22
Ireland	21
Belgium	21
France	20.6
Austria	20
Italy	19
Greece	18
Netherlands	17.5
UK	17.5
Portugal	17
Spain	16
Germany	15
Luxembourg	15
Japan	3
Australia	-
USA	-

Source: Coopers and Lybrand

A telecoms loophole which allows suppliers outside the European Community to sell telecommunications services in the UK without VAT is to be plugged. This will protect £800m of existing revenue.

There is to be a customs block on international VAT avoidance. New rules will ensure parity of treatment between multi-national VAT groups and businesses based entirely in the UK.

The "zero-rated" status has been maintained on sectors such as books, newspapers and magazines as well as fresh food and childrens clothing.

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PUBLIC FINANCES

Clarke squares the magic circle, but who will pay the price in future?

Diane Coyle
Economics Editor

DIANE COYLE

Kenneth Clarke might go down in history as the Laughing Chancellor. Always jovial himself, he has tried to make a lot of other people at least moderately happy with this Budget.

Voters will like the high-profile income tax cuts and higher spending on the front-line public services. His own right-wingers will approve of the reduction in the Government's overall spending plans and the crackdown on benefit fraud. And lower public-sector borrowing will please the City and allow the Chancellor to resist an increase in interest rates.

For Mr Clarke has achieved a hat trick: a small net tax give-away; a reduction in total plans for public spending from next year; and a lower forecast for the Public Sector Borrowing Requirement (PSBR).

The reduction in taxes compared with previous plans amounts to only £735m next year, although this figure is based on the rather optimistic assumption that cracking down on tax avoidance will raise £560m. Spending plans have also been trimmed by £1.7bn in 1997/98, compared with last year's plans – although this is an increase of £500m for the current financial year. And the PSBR for next year is more than £4bn below what the Chancellor had predicted this summer.

What's more, it is a neutral, or even tough Budget, which is what the economy needs with the pace of growth picking up smartly. How tough depends on whether the public finances live up to the plans.

"His claim that it is a tough Budget is based on the tax avoidance and anti-fraud measures. You can give that what credibility you like, but it is not the same as taking out a programme of expenditure," said Kevin Darlington, an economist at Hoare Govett. More charitably, Simon Briscoe at Nikko said: "The Budget is largely wheeze-free, and it's tougher than we expected."

The new tax measures will be more than paid for by lower spending if the fraud and anti-avoidance programme actually deliver the goods. The fall in the PSBR between this year and next (£7.5bn) is almost exactly the same as planned last Budget (£7.4bn).

The architecture of the public finances is less Byzantine than it looks, and certainly not as complicated as the Budget Red Book always manages to make it appear. Behind yesterday's announcements lies a reasonably simple equation.

The Clarke hat trick has been "paid for" from one new source and three standard ones. Clearly, higher taxes in some areas can pay for lower ones elsewhere and spending cuts for some departments allow increases for others. Thus taxes on insurance and travel, petrol and tobacco have increased, while income tax and business rates are down. Spending on unemployment benefits and defence has fallen, while the NHS and education get more money. But the new money the Chancellor has magicked out of the hat to finance the hat trick comes from:

☐ The "spend to save" programme, supposed to deliver savings of around £700m in a full year in public spending from the clampdown on benefit fraud and about £1.2bn a year from anti-tax avoidance measures;

☐ An extra £500m next year from an increased estimate of revenues from privatisation, which are classed as negative public spending and reduce the government's "control total" for expenditure;

☐ £2.5bn from a reduction in the contingency reserve for the current and next financial years, normal practice in each Budget;

☐ About £1bn thanks to a more optimistic forecast of tax revenues.

The cash found by reducing the contingency reserve is bona fide and, as usual, more than accounts for the reduction in the overall control total. It is standard for the Treasury to pencil in a low sum for the current year rising to a higher sum several years out. The profile for the reserve gets shuffled along a year as each Budget rolls around.

Mr Clarke is on unexpectedly solid ground with his renewed optimism about the Government's income from tax receipts. Forecasting the path of government borrowing is a mug's game in one sense: as the difference between two huge numbers, there can be little confidence about the accuracy of any prediction. The past year has demonstrated this difficulty with a vengeance. Last year's Budget turned out to be too optimistic about the outlook for the PSBR because it over-predicted tax revenues. Within a few months it had become clear that corporation tax and VAT receipts were growing far more slowly than expected. The Government ended up borrowing about £32bn in the financial year 1995/96, fully £3bn more than it had predicted last November. So when the Treasury experts came to update their forecast for the current and future financial years in the summer, with no idea why tax revenues had been surprisingly low, they sensibly erred on the side of caution.

The summer forecast predicted a PSBR of £26.9bn in 1996/97 and £23.1bn in 1997/98. These were well above last November's figures of £22.4bn and £15bn. Luckily for the Chancellor, the missing tax millions returned in time for yesterday's Budget. Government spending has been running ahead of plan but its income has been growing at a far more buoyant rate than expected.

Mr Clarke has therefore been able to readjust his projections for government borrowing back a bit towards those set out in last year's Budget. He is now predicting that the PSBR will be £26.3bn this year falling to £19bn next year. It will hit a surplus by 2000/01 – a happy event postponed by a year for the second year running.

The biggest query over yesterday's happy arithmetic will turn out to be whether the Government can stick to its spending plans. The short-term doubt is the repeatedly proven difficulty of controlling departmental spending in the year before an election. The signs are not good. So far this financial year, central government spending has been growing at an annual rate of about 4 per cent rather than the 1.8 per cent pencilled in by the Treasury.

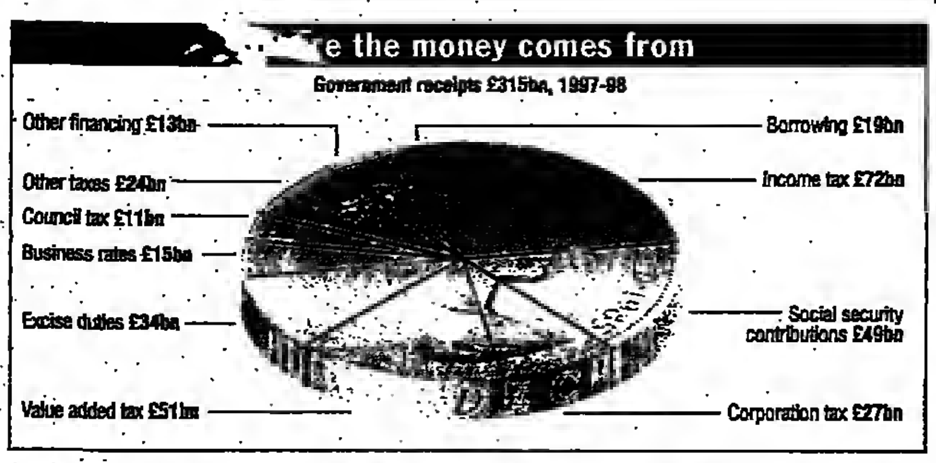
But there are longer term issues in the public finances too. The national debt has doubled under the Major government because tax cuts over the years have been more generous than warranted by the growth in government spending. Technically, the government is bankrupt. In the circumstances, and at this stage in the economic cycle, it ought to be aiming for much lower borrowing figures and for a surplus of revenue over spending within a couple of years.

The arithmetic therefore does not add up much beyond the horizon of the election. It will fall to future Chancellors to deliver unhappy Budgets in future.

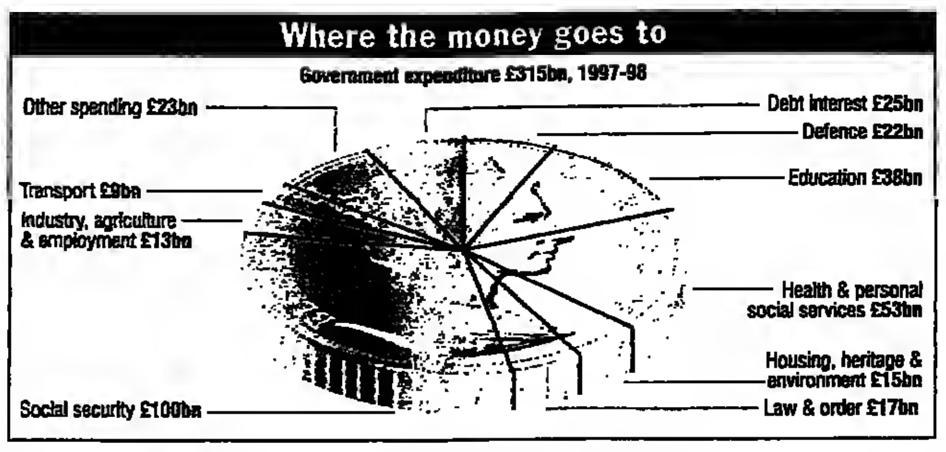
'Anti-fraud measures are not the same as taking out a programme of expenditure'

'The Budget is largely wheeze-free, and it's tougher than we expected'

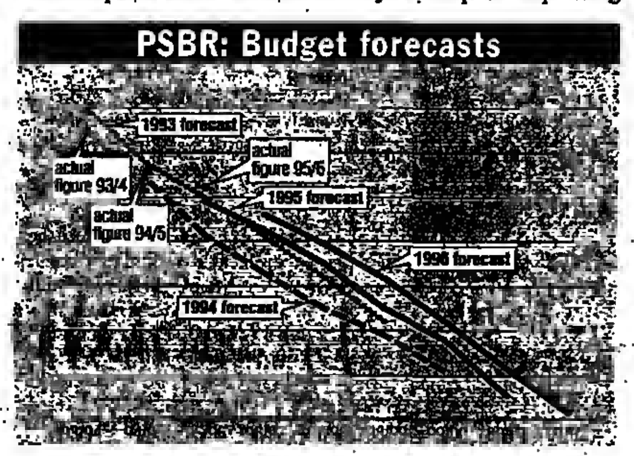
e the money comes from



Where the money goes to



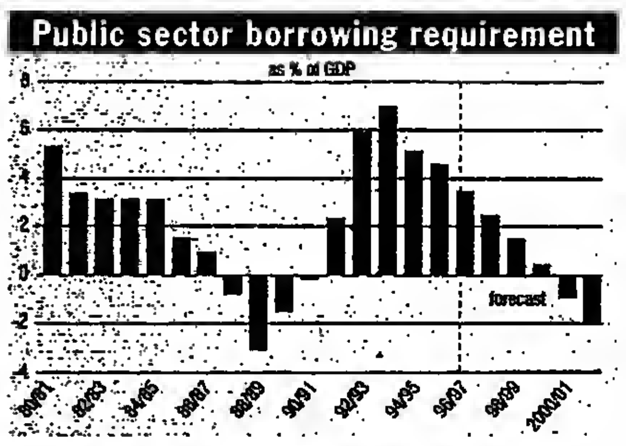
PSBR: Budget forecasts



The Budget arithmetic

£ billion	95-96	96-97	97-98	98-99	99-2000	00-01	01-02
General government expenditure	303.0	308.5	319.0	327	336	345	353
General government receipts	269.2	280.8	299.4	315	333	352	370
General government borrowing requirement	33.8	27.7	19.6	12	4	-7	-18
Public corporations' market and overseas borrowing	-2.2	-1.3	-0.4	0	0	0	0
PSBR	31.7	26.4	19.2	12	3	-8	-18
PSBR as % of money GDP	4.5	3.5	2.5	1.5	0.5	-0.75	-2
Money GDP	708.5	745.7	786.9	828	864	903	943

Public sector borrowing requirement



ECONOMIC FORECASTS

Little Red Book gives lie to Chancellor's optimism

Yvette Cooper

The Chancellor's economic forecasts paint a cheerful picture of short-term prospects for the British economy. According to the Budget figures, the economy will grow faster next year than previously predicted, while inflation will meet the Government's target.

But it remains unclear whether the Chancellor has done enough in his Budget to justify his optimism on inflation over the medium term and to avoid problems emerging in the economy in future.

Officials have revised the growth forecast for next year slightly upwards since the Summer Economic Forecast only five months ago. The Treasury is now predicting 3½ per cent growth next year, rather than 3¼ per cent, a figure which lies comfortably in the middle of the range of independent forecasts.

After higher than expected inflation last month, the Treasury has increased its inflation forecasts for next year by a quarter point to 2.5 per cent. But the Chancellor claimed with confidence that inflation would meet the Government's target of 2.5 per cent or below, by the end of this Parliament and well into 1998 as well.

These headline forecasts for the next year contain no surprises, and most economists regard them as plausible. However, the Chancellor's optimism about the long-term prospects for the economy, particularly about inflation, was greeted with caution and scepticism in the City. Mike Dicks, Chief Economist at Lehman Brothers, said: "We can't see inflation dropping down below 2.5 per cent next year or the year after."

Disagreement between the Chancellor and the Governor over the outlook for inflation looks set to continue. In contrast to the Red Book, the Bank of England's last inflation report stated that: "Achievement of the inflation target remains elusive."

Even within the Chancellor's Red Book there is evidence of potential inflationary pressures. The amount of money sloshing round the economy (measured by M0 and by M4) continues to expand faster than the levels set in government targets. Meanwhile consumer expenditure is once more expected to be the engine of economic growth this year, rising by 4.25 per cent according to Treasury estimates.

As Neil MacKinnon of Citibank pointed out, "The recovery has been rather unbalanced." Growth that relies predominantly on rising consumer demand rather than investment or rising exports, risks becoming inflationary if the economy can't satisfy rising demand.

The Treasury is ebullient in its forecast for investment next year, claiming that business investment will rise by 10per cent. However, that forecast includes £7bn worth of projects under the Private Finance Initiative. public-sector investment is set to fall by more than 10 per cent, leaving whole economy investment at only 6.25 per cent.

If any of the PFI projects are delayed or do not materialise, overall levels of investment may not live up to forecasts. Moreover, predicting investment is notoriously difficult, as the Treasury and everyone else have been wrongly anticipating a pick-up in investment for many years now. Without adequate investment to boost capacity, inflationary pressures are likely to build.

One outlet for those inflationary pressures could be a widening trade gap.

Fiscal policy won't have a huge impact on the Government's ability to meet its inflation target. Mr Clarke said he was tightening fiscal policy to avoid excessive monetary tightening in future. However, the fiscal tightening is marginal. Borrowing in 1997 will be higher at £19bn than last year's Budget forecast for 1997 borrowing of £15bn. Some in the City fear that without far more drastic action on taxes, interest rates must rise in the new year.

The money sloshing round the economy continues to expand faster than levels in government targets

Economic Forecasts

% change	What happened in 1995	Forecast for 1996: Budget forecast	Summer forecast	Wise Men* average	Forecast for 1997: Budget forecast	Summer forecast	Wise Men* average
GROSS DOMESTIC PRODUCT	2.50	2.50	2.50	2.30	3.50	3.25	3.4
DOMESTIC DEMAND	1.50	2.25	2.75	2.40	3.75	3.50	3.50
of which:							
Consumer spending	2.00	3.00	3.25	3.00	4.25	4.25	4.00
Fixed investment	-0.25	3.00	3.00	3.50	6.25	5.50	5.20
Government consumption	1.50	1.00	0.50	0.70	0.75	0.95	0.80
Change in stocks as % of GDP	0.00	-0.50	0.25	0.10	0.00	-0.25	0.30
TRADE							
Exports	7.75	6.25	6.00	6.60	5.75	5.75	5.70
Imports	4.00	7.00	7.50	7.00	6.75	5.75	6.10
RPI	3.00	3.00	2.50	2.70	2.50	2.25	2.50
[illegible]							
BALANCE OF PAYMENTS (£bn)	-4.00	-2.25	-3.50	-1.90	-4.25	-1.50	-4.50
PSBR	31.5	26.5	27.0	26.5	19.0	23.0	21.8

*Treasury's panel of independent forecasters

GDP growth

'This virtuous Budget will

These are the edited highlights of the Chancellor's speech yesterday.

Mr Deputy Speaker, the British economy is today prosperous and successful. This Budget will make it even more prosperous and an even bigger success.

When I presented my first Budget in 1993, it was against a very different background from today. Although the recovery had begun, consumer confidence had not yet returned. Growth was not yet firmly established. Further firm action was needed on the public finances, and our critics were peddling doom and gloom.

The recovery is now in its fifth year. Consumer confidence has returned and we are achieving something unprecedented for a generation – growth with low inflation and without a widening trade gap. But one thing has not changed: our critics still peddle doom and gloom.

In my first two Budgets I curbed the growth of public spending and took firm decisions on tax, which have brought borrowing down by almost half since 1993.

Last year, in my third Budget, I was able to return to cutting tax while spending more on the public services which people care about most – health, schools and the police – and keeping borrowing on a firm downward path.

This year, I am presenting a Budget which builds on my last three. It reduces public spending plans further, while providing more money for priority services. It makes responsible progress on our tax cutting agenda, while getting borrowing down faster.

This is not a reckless Budget on tax or spending. In the run up to Christmas I am not going to play Santa Claus, but this year I do not have to play Scrooge either.

I have one overriding aim – the lasting health of the British economy. We are securing that by creating the best conditions for British businesses and British men and women to earn a living. All my Budgets and all my policies have been designed to set this country on course to be the strongest industrial economy in Western Europe.

The Economy

The British economy is in its fifth successive year of steady, healthy economic growth, with falling unemployment and low inflation. These are the best circumstances we have faced for a generation. This is a Rolls Royce recovery – built to last.

The IMF and the OECD expect the UK to be the fastest growing major European economy again next year.

By next year we will have grown faster than either France or Germany for five years in succession for the first time in half a century.

This time – unlike so many previous recoveries – healthy growth has been accompanied by the best inflation performance for nearly 50 years. And restrained growth of earnings has been good for jobs.

The British labour market has become our flexible friend. Employment began to rise sooner and unemployment began to fall sooner than in the previous recovery. Growth creates jobs quicker in a flexible labour market.

The OECD have praised us for having one of the least regulated labour markets in the industrialised world. High social overheads, minimum wages and unnecessary legislation do not protect workers – they cost jobs. Unemployment is still rising in France and Germany. It has fallen sharply here, to its lowest levels for over five and a half.

In the bad old days recoveries were derailed by balance of payments crises. In this recovery, the current account has actually improved, despite the slowdown in our main European markets. In fact we now have a current account broadly in balance – our best overall trading performance for nearly 10 years.

Economic Policy

I want to ask the British people: in the years ahead do we seriously want to be prosperous? I think we do. If so, we need an economic policy aimed at the next five years, not just at the next five months. We want an economic policy that will go on delivering our enviable combination of rising prosperity, low inflation and more jobs. That is my purpose in this Budget.

This Budget secures a prosperous future for all sections of our people and their families. It is a Budget not just for today but for tomorrow. This is a sensible Budget for growing prosperity.

I expect the British economy to grow by 2.5 per cent this year and 3.5 per cent next year – and there are few serious commentators who will disagree with that.

By keeping a close eye on the prospects for inflation up to two years out, and by taking sensible early action if and when necessary, I intend to ensure that healthy growth continues without inflationary pressures emerging. That is what I have always promised – no return to boom and bust.

Consumer Spending

I expect consumers' expenditure to continue to be the main engine of growth next year. The real value of take home pay is growing strongly.

The housing market recovery is firmly established. I hope that negative equity can soon be consigned to the economic history books.

I expect consumer spending to grow by 3 per cent in 1996 as a whole. But it has been strengthening through the year. I expect stronger growth to continue, with consumers' expenditure rising by over 4 per cent next year.

Investment

But this recovery is not just about a more confident consumer. Businesses are optimistic too. The climate for business is excellent: strong demand at home and a recovery in our key export markets present British industry and commerce with tremendous opportunities.

Interest rates and tax rates remain low and profitability is high. The result has been business investment growth of 6 per cent so far this year. I expect business investment to continue to grow strongly; by almost 10 per cent next year.

These excellent conditions for business are not lost on overseas companies looking to invest for the future. The United Kingdom remains the number one destination for inward investment into the European Union. Keeping our enterprise economy on course at the heart of Europe will keep us in pole position.

Exports

Exports have grown by almost 20 per cent over the last two years – an impressive performance in the face of weak demand in our key European markets. This achievement is down to our strong cost-conscious British exporters. They will benefit further next year as the tentative recovery on the continent becomes more established. I expect export volumes to rise by over 7 per cent this year and 6 per cent next year.

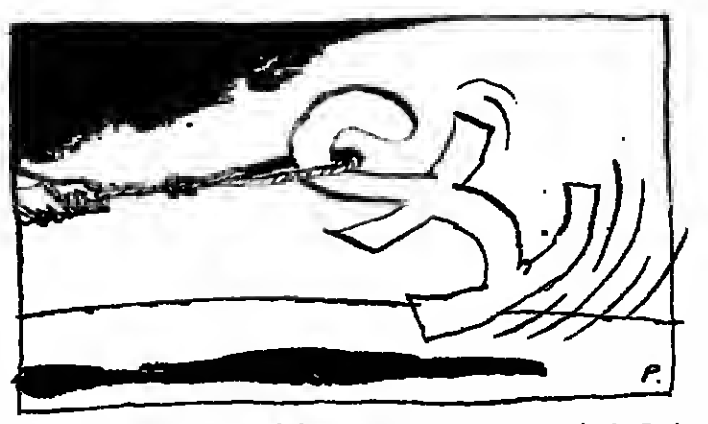
I expect the current account to remain broadly in balance.

Jobs

Our thriving economy is creating jobs. Employment has risen by over three quarters of a million since the recovery began. Unemployment has fallen by almost a million from its peak. It will soon drop through the 2 million mark. I want it to go on falling and I expect it to go on falling.

Inflation

We are on course to get underlying inflation down to our target of 2.5 per cent or less and to keep it there. In October, underlying inflation rose slightly, to just over 3 per cent. This should not have surprised anybody who looked at last year's statistics. It is a temporary and inevitable reflection of the exceptional falls in the price level 12 months before.



Let me give you my concrete reasons for being so confident about low inflation. Apart from oil prices, which have risen sharply, commodity prices are steady and are not putting upward pressure on inflation. Earnings growth remains sensible and modest. Producer price inflation – a good indicator of what is in the pipeline for retail price inflation – is at its lowest levels since the 1960s.

Any risk to this recovery from inflationary pressures re-emerging remains a good way off. But as I have demonstrated again and again, when I see any risks, I will act. I will continue to stay ahead of the game on monetary policy. Eddie will keep me steady and I will continue to be canny. I expect underlying inflation to meet our target of 2.5 per ceot or less.

Public-Sector Borrowing

We have made good progress in reducing public-sector borrowing, but not as fast as I expected. The Budget therefore targets public-sector borrowing. One reason why I continue to concentrate so heavily on public-sector borrowing in setting policy is because money spent paying the interest on our debt would be better spent on public services and to reduce taxes. We are making good progress on bringing down borrowing, but lower than expected tax revenues mean that it has not fallen as fast as I expected.

The causes of these shortfalls in our forecasts of tax revenue, primarily on VAT, but also on direct taxes, cannot wholly be explained by any experts inside or outside the revenue departments. But there does seem to be an increasing tendency to exploit loopholes and use special reliefs in an artificial way to reduce tax bills. Those sort of tax cuts are unacceptable. If they are not tackled every year in the Budget, they mean that a few people pay less tax, but the rest pay more.

In this Budget I will propose a number of measures to stem tax leakage, to protect the ordinary tax payer and make sure we get the right tax from the right people. When I reduce tax I want to do so in a way that is fair for businesses and fair for the hard-working British man and woman.

Government borrowing has been steadily coming down for three years. This Budget will ensure government borrowing keeps coming down. I expect the PSBR to be £26.5bn this year. That will mean it has halved as a share of GDP over the past three years. I expect it to come down to £19bn next year and to be in balance by 1999-2000.

That pattern of declining borrowing is very much better than the one I had to put in my Summer Economic Forecast last July – £4bn better next year. A large part of that improvement is the result of the measures I am taking in this Budget.

This Budget tightens fiscal policy. I am tightening fiscal policy now to reduce the risk of having to tighten monetary policy excessively as I set policy to hit my inflation target.

My decisions are always taken solely in British interests to benefit the British economy. But my decisions in this Budget also mean that, by happy coincidence, we will meet the Maastricht debt and deficit criteria in 1997, and we will do even better than that in the medium term. It is a happy coincidence because those criteria make sound economic sense, with or without a single currency. Our option whether to join or stay out of a single currency, based on British national interest, remains a genuine choice for the next Parliament to exercise, when the time comes.

This government is the champion of sound public finances, of limited government and of low taxation. Our combination of low taxation, low public spending and low debt is the best in Europe. We intend to stay in that enviable position. We can only do this if we continue to bear down on public spending.

Financial case: Kenneth Clarke in Downing Street yesterday Photograph: Stefan Rousseau/PA

Public Spending

In the 1980s, across the rest of Europe, the modern state remorselessly took an ever greater share of almost every nation's wealth. We in Britain held the line. The proportion of GDP going into government spending in the UK is now 8 per cent lower than the average in the rest of the European Union. If our spending had risen to their levels we would now have to *raise nearly £2,300 a year more* in tax from every British household.

I have set a target of 40 per cent or below for the share of national income that goes on public spending. Making progress towards this target means tough decisions on public spending every year. But this year we have had to cope with the costs of BSE and larger than expected increases in the costs of social security.

Against this background, we had to keep the rest of public spending within the tightest possible limits, in order for us to spend more on the public services people really care about – education, combating crime and on our National Health Service.

Despite all the difficulties, we have been able to reduce public spending plans over the next three years by a further £7bn in this Budget. Public spending next year will be over £24bn lower than was projected when I became Chancellor – a reduction of 7 per cent.

We have been able to reduce spending plans because we have lower inflation, falling unemployment, a continuing campaign for efficiency in the public sector and sensible policy priorities. On top of that, the Government's drive against fraud and abuse of tax and benefits will be stepped up another gear.

Next year we are going to meet our target of 40 per cent for the share of national income that goes on public spending. In last year's Budget I said I would make 40 per cent in 1997-98. This year's Budget secures that important goal. So long as we keep the growth in public spending down below the growth in the economy, we will go below that.

Education

Education is the key to the future of any prosperous and civilised society. It helps to determine how well the economy performs in the long run. It also helps to determine the sort of citizens we are and the sort of society we have. This Government is committed to raising standards in education.

As a result of last year's Budget £878m extra was provided for schools this year. We are giving schools priority again in this Budget. Planned expenditure on schools will rise by another £830m next year. A large proportion of this money – £633m – will be channelled through the local authorities.

A good school has a value far and beyond its buildings. But the quality of school buildings in which our children are taught is still very important. We will be providing an extra £50m on top of the previously planned provision for more capital investment to improve the fabric of our schools.

By setting high standards for schools and increasing choice for pareots, this government is delivering better trained and better qualified young people. Almost one in three young people now go on to university, compared with one in eight in 1979. And our universities and colleges maintain some of the highest standards in the world despite the pressure oo their unit costs that this unprecedented explosion of opportunity for young people has produced.

But I recognise this pressure and I also realise that our universities and colleges make an important contributioo to the economy. My Budget therefore includes £280m to boost further and higher education over the next two years.

As the Secretary of State for Education [Gillian Shephard] announced in September, the Government is planning a substantial sale of student loans debt.

It makes no sense for the Government to keep a huge portfolio of loans on its books when the private sector could manage it more effectively and is better placed to cope with the risk. The sale will have no effect on the terms on which students can get loans. We will actually spend more on the things that really matter – educating our children and young people.

Law and Order

This Government believes that effective law and order is an essential part of making Britain a nation at ease with itself. A good quality police service and an effective system of criminal justice, are high on the list of government priorities.

Spending oo law and order has already doubled in real terms since 1979. Provision for combating crime – police and prisons – will now rise by another £450m next year. Our plans provide for 2,000 more police constables by the end of next year. We are well on course to meet the Prime Minister's pledge for 5,000 more constables.

Health

Our National Health Service, with treatment free at the point of delivery, is the envy of the world.

In every modern, civilised society the demand for better health care, for new techniques to save lives and improve our quality of life grows constantly. This government *completely understands* that. That is why we have increased spending by some 75 per cent in real terms since 1979. That is why the Prime Minister has pledged more resources for the NHS in real terms every year, throughout the oext Parliament.

We are also spending that money better. We have reformed the NHS so it is better managed and much more efficient. When waste is reduced, more can be directed to higher quality patient care.

For next year, we will increase current spending on patient services by £1.6bn, or 2.9 per cent in real terms. The real increase in current spending for hospitals next year over and above inflation will be 3 per cent. On top of this, Private Finance Initiative investment will play an increasingly important role in providing new healthcare facilities. PFI investment in the NHS will reach some £900m over the oext three years on top of the increased public spending I am announcing.

The NHS will continue to grow and continue to improve. We are totally committed to the NHS as a public service providing high quality up-to-date treatment, free at the point of delivery.

The NHS has been safe in our hands, it is safe in our hands and it will always be safe in our hands.

Other Areas

This year's spending round was as tight as any I can remember, eye-wateringly tight, but we never lost sight of our objective which is to sustain and improve the key public services that the public care about: education, combating crime and our National Health Service. In part we have achieved that by increasing efficiency within the priority services but inevitably we have also had to find savings in other programmes.

We are continuing our remorseless squeeze oo the costs of bureaucracy. And we have looked in every departmeot for ways of achieving our objectives more economically. With efficiency savings, most departments will be able to deliver their programmes next year, but with less money in real terms.

Private Finance Initiative

People pay their taxes in order to get good quality public services, not to accumulate state-owned buildings. This simple truth has led to the development of the Private Finance Initiative.

The PFI helps to square the circle of sound public finances and growing demand for better and more modern public services by tapping the expertise and the resources of the private sector.

A year ago we had agreed £1.5bn worth of deals – now we have agreed £7bn, and we are on course to double that by March 1999. Time and again the taxpayer is getting better value for money, through new road schemes, new prison services, and Information Technology projects. And reforms to local government rules are bringing the PFI into new areas – notably schools.

London is currently experiencing a transport investment boom under the PFI: the Channel Tunnel Rail Link, Thameslink 2000, the Docklands Light Railway extension, and the A40 and A13 improvements. This is in addition to conventional public and private capital spending on the Jubilee Line extension, the Heathrow Express and the new A12-M11 Hackney Link.

Social Security

One third of all public spending goes on social security. Our social security system is there to provide an income when people cannot earn because of sickness, disability, unemployment, caring for relatives or old age. People on the left and right of politics continue to search for a radically different and better way of meeting these needs in our wealthy nation.

I have studied many of their proposals and so far, I am afraid, nobody has yet come up with anything remotely sensible or practicable.

Until they come up with a radical alternative, if they ever do, our welfare safety net must remain affordable. It must not be allowed to damage the incentives of individuals or businesses in the private sector, because it is the wealth-creating enterprise economy that sustains our social security system.

In the post-war period, social security has grown in real terms by around 5 per cent a year. In recent Budgets we have taken action to bring that growth under control. We now expect future growth of 1.5 per cent a year – well below the growth of the economy.

Year after year, this government has also vigorously attacked fraud and has reformed benefits to target them on those in genuine need. The measures I now propose in this Budget intensify these efforts yet again.

We plan a further move to align the benefits paid to lone parents and couples with children. From April 1998, new awards of Family Premium and Child Benefit will be the same for lone parents and couples. And we are introducing a number of measures on housing benefit and council tax benefit to ensure that those on benefits do not have a more comfortable lifestyle than those who are supporting themselves on modest incomes. That would be unfair and unwise.

In my Budget two years ago, I announced a whole package of measures to help the unemployed get back to work – from improvements to the Family Credit System to National Insurance holidays for employers taking on long-term unemployed people.

In this Budget I am providing another £100m of new money, mainly targeted on people who have been unemployed for two years or more. They will be required to attend a compulsory programme of interviews with the employment service to give them a helping hand to compete in our ever improving market for jobs. We are expanding Project Work pilots to a further 28 areas. This will create up to 100,000 new opportunities, on a programme with a good track record for getting long-term unemployed back to work.

I can also announce pilots for a new scheme called "Contract for Work". Private contractors will help people to find work. These firms will be paid by results. Dependency impoverishes us all. The welfare system should provide a safety net. But the system must never become a way of life. We do not want our social security system to be undermined by resentment.

Spend to Save

As part of our continuing fight against tax and benefit fraud and tax loopholes, I am introducing a package of measures called "Spend to Save". This involves spending modest amounts of money – carefully targeted – to save much more money, and to raise revenue.

There will be more money next year to clamp down on benefit fraud. Inland Revenue tax experts will be redeployed to investigate even more rigorously how some big, sophisticated companies seem to pay so little tax. There will be more resources in the Revenue and Customs to stem the growth of the shadow economy. Tax cheats put law-abiding small entrepreneurs out of business. We all lose from that.

There will be more Customs and Excise Officers to tackle VAT and other tax abuse, including the smuggling of alcohol and tobacco. The "Spend to Save" package will cost £800m over the next three years to secure savings of well over eight times that amount.

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ll bring rich rewards for all'

Running Costs

"Spend to Save" protects the ordinary taxpayer and the people in genuine need of benefits. It is not about more hureaucracy nr more red tape. We remain a government committed to deregulation. And committed to a more efficient civil service.

We have cut overall central government departments' running costs by 8 per cent in real terms since the start of this Parliament and we are going tn reduce them by a further 7 per cent by the end of the decade. Civil service numbers are already below half a million, and we expect this fall to continue.

Taxation

The first duty of *government* is to make sure that people can live their lives as they want and that husinesses can flourish. People must have the opportunity of a good quality job to go to, a good standard of living, good schools and hospitals and safe streets m live in. Only when those essentials are secure, and only when the Government has made sure that it is not borrowing more than *it should*, can a government think about tax cuts.

Last year, I cut taxes paid by the ordinary family and this year I am able to cut a little more. I think that the message I have repeated over recent months has now been understood. If there are to be tax cuts, *they must be for keeps. They must* be backed not only by sound spending decisions but also by a sound fiscal judgement.

Consumer spending is strong and inflation remains in check. But a fiscal stimulus to the economy at this stage could be just as *damaging as letting* go of monetary policy. So, in setting my Budget, I have struck a careful balance.

I want to cut taxes, but first I have to continue my drive to secure the tax yield. I have to make sure that tax due is turned into tax paid. The halance of the tax hurden must be distributed sensibly and fairly and it must not distort decisions or competition.

I am introducing a number of measures which will help us to achieve this. I am *plugging some* loopholes, ending some tax reliefs that have done their job and adjusting some indirect tax rates.

Even though VAT revenues have revived in recent months, they are still coming in significantly below what was expected last year. This Budget includes a crackdown on some of the clever wheezes that have sprung up to get around paying VAT. These measures will raise £750m in revenue next year, but they also protect a further £1.5bn a year of existing revenue from further attacks.

Profit-Related Pay

The tax relief this government introdnced in 1987 to promote profit-related pay schemes has been a success. It has played a key role in reinforcing this government's strong beliefs that employees' rewards should depend on the success of the business for which they work.

The best way for businesses to motivate their staff is to let them share in the rewards of success. I am delighted that tax reliefs have helped to get this idea accepted so widely.

The tax *relief* on profit-related pay was always intended to he a

pump-priming measure. As Nigel Lawson said 1986: "There is considerahle inertia to overcome, so it might make sense to offer some temporary measure of tax relief." Profit-related pay is now *firmly* established as part of British businesses' pay policy. Over 3.7 million people are in schemes. Ten years on, the tax incentive has successfully served its pump-priming purpose.

I can no longer justify the increasing cost of the tax relief to the *22 million taxpayers* who are not in profit-related pay schemes. We cannot permanently divide the workforce into groups who pay different levels of tax on the same earnings depending on whether the firm they work for is in a scheme or not.

The goal of widespread use of PRP has been achieved and I would rather make faster progress on lower taxes for everybody.

Good managers do not need a tax relief any more to know that pay should be linked to their firm's performance. Pay linked to profits produces it own rewards on the bottom line in a thriving economy.

It is *therefore* time for the Government to start to withdraw this special tax relief. I intend to do this gradually, to ensure that businesses who need to adjust their pay packages and their sharing of the rewards of success have ample time to do so.

The upper-limit of pay attracting the relief will remain unchanged at £4,000 until 1998 and no nne will be affected before then. It will *then be progressively reduced* until the year 2000, when the relief will he withdrawn altogether.

Capital allowances for long-life assets investment is vital to our recovery and business investment is now growing strongly. The tax system recognises investment through capital allowances. These allow the cost of investment to be written off against tax bills, frequently faster than *it is written off in commercial* accounts.

For plant and machinery with a *long lifespan, the rate* at which costs can be written off for tax is far more generous than for other types of investment and bears no relation to the useful economic life of the asset. This is an unjustifiable distortion in the tax system.

I propose changing the capital allowance for plant and *machinery* with a life of more than 25 years to 6 per cent on a reducing balance basis. This will spread the tax relief more evenly over the average life of these assets. Groups spending less than £100,000 a year on such assets will be exempt. This will mean that the vast majority of small companies will not be affected. Ships and railways will also be exempt.

I also propose to withdraw the 100 per cent corporation tax deduction for the intangible costs of drilling most production oil wells.

Other Changes

This government recognises that low marginal *tax rates* on income are a spur to hard work and enterprise. Taxes on spending do less damage to effort and enterprise than taxes oo income. But the balance of the taxes on *spending* must *be* right. And I am making some changes to taxes which help to move towards a better balance for the tax system as a whole.

Insurance Premiums

I propose to increase insurance premium tax, which applies to most general insurance, to 4 per cent. Three-quarters of all insurance – including life and other long-term insurance - will remain exempt. Insurance remains undertaxed for consumers compared with other services in this country. The introduction of the tax did not harm the healthy insurance industry that we have. Most companies absorbed the tax and some premia actually fell for a time. Even after this further modest change, the overall rate of insurance premium tax in the UK remains very low – lower than in almost any other European Union country.

Air Passenger Duty

Air travel has also been undertaxed because it has proved difficult to get international agreement to tax its fuel. The rates of air passenger duty are to be increased. The £5 rate on *flights* to most European countries will be increased to £10, and the £10 rate on flights to the rest of the world will be increased to £20. These increases will not come into effect until November 1997, to give tour operators time to reflect these new rates in the prices they publish in their *holiday* brochures.

Business travel is soaring and the holiday business is booming at the moment in prosperous Britain and this modest change will not stop it booming in future prosperous years. About 40 per cent of the revenue raised by this tax is borne by overseas visitors.

Vehicle Excise Duties

I am making the same changes to the main Vehicle Excise Duties this year as I did last year. The cost of a car tax disc will go up by 5, around the rate of *inflation*. The cost of a lorry tax disc will be frozen for the seventh year in a row.

Road Fuel Duties

I firmly believe that motorists should bear the full costs of driving – not only wear and tear and congestion on the roads, but also the wider environmental costs. Even those of us who frequently have to drive can take steps to cut fuel consumption and we all ought to consider carefully the use of our cars.

I intend to stick to my 1993 Budget commitment to raise road fuel duties by an average of at least 5 per cent each year *in* real *terms. In line* with this I am raising the tax on all petrol and diesel by 3 pence per litre from 6pm tonight. These tax rises will encourage fuel efficiency and help control harmful pollution.

Air Quality

Consumer society: Customers in a London diner chew on weightier matters Photograph: Brian Harris

I am glad to say that pollution from vehicles is already coming down, helped by tax measures in previous Budgets. The tax measures taken to encourage unleaded petrol were a huge success. It now accounts for two-thirds of the petrol market. I want to go further in this Budget to attack pollution in cities and *improve air quality* by effective steps to reduce particulate emissions – the smoke produced by diesel engines.

In recent years, new evidence has come to light strengthening the health arguments for reducing particulates. This pollution is being reduced, but we all want to see it being reduced further and faster.

Ultra-low sulphur diesel is cleaner than ordinary diesel, but is slightly more expensive to produce. I want to create the conditions where ultra-low diesel can cost the same at the pump as ordinary diesel. I have just said that I am increasing the tax on diesel by the same amount as petrol. I plan to reduce the duty on ultra-low sulphur diesel by I pence per litre relative to *ordinary* diesel, when I get the necessary interoational agreement.

I also want to encourage high-mileage vehicles in our towns and cities to switch to cleaner gas power. Last year's Budget changes broadly equalised the pump prices of gas and petrol. From 6pm tonight I am reducing the duty on road fuel gases by a further 25 per cent.

I *also intend* to *reduce Vehicle* Excise Duty by up to £500 for lorries meeting very stringent emissions standards from early 1998. This will give an incentive for lorry owners to fit particulate traps or to convert to gas power. We will be consulting on the practical details.

I believe that this "air quality package" will significantly speed up the reduction of urban emissions of particulates, *helping us to meet our* air quality targets fnr 2005 and beyond. We intend to ensure that economic growth in this country is consistent with a healthy environment and sustainable development.

Tobacco Duties

In my 1993 Budget, I gave a commitment to raise duty on tohacco by more than inflation each year. I believe this is a fair and effective way to hammer *home the message* that smoking can seriously damage your health. So far I am concerned, this is necessary masochism in the wider public interest.

From *6pm this evening*, the tax on a packet of 20 cigarettes will increase by about 15 pence, on a packet of *small cigars* by about 7 pence and on a packet of pipe tobacco by about 8 pence.

But I am limiting the increase in the duty on hand-rolling tobacco tothe rate of inflation. Hand-rolling tobacco is proving to be by far the easiest tobacco product to smuggle, although it represents a very small part of the tobacco market.

Alcohol

I am aware of the serious prohlem that *cross-border* shopping and smuggling of alcohol causes our drinks industry in Britain. I have already *announced* that Customs are stepping up their efforts further to catch smugglers.

Last year, I was able to freeze the duty rate on beer and wine. This year it will remain frozen. The proportion of tax on the price of a pint in the puh is now at its lowest level for *30 years. For some of us*, that helps to keep our small cigars affordahle.

Last year's cut in the duty on spirits was the first for 100 years. I was tempted to maintain a striking rate of once every 100 years. But I am sure the industry will he glad to *know that they will not* have to wait so long this time.

From 6pm tonight the tax on whisky, gin and other spirits *will fall* by another 4 per cent, worth 26 pence a hottle.

The reduction in the rate on spirits boosts an important industry in the UK. It will also reinforce last year's signal to overseas authorities not to discriminate against our *products*. Only smugglers will regret that we are slowly moving our duty of spirits nearer to the continental level.

From I January, the tax on alcoholic soft drinks will be increased by over 40 per cent, by hetweeo 7 and 8 pence a bottle. This will help meet pnhlic concern about the attraction of these "alcopops" for under-age drinkers, and it will also *attack* a *distortion of competition* by bringing the tax broadly into line with beer.

Business

Nothing matters more for business than a stable economic environment – *low interest rates* and *low inflation*. Businesses throughout Britain are benefiting from the healthy sustainable growth in the economy that I have described today.

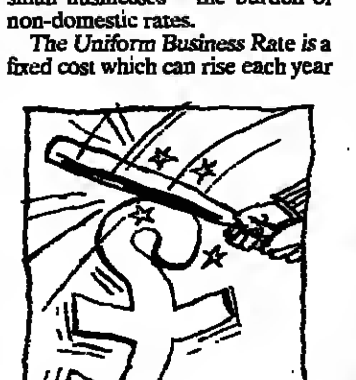
As I promised in my last Budget, from April 1997 there will be a cut in the main rate of employers' National Insurance Contributions, to 10 per cent, paid for by the proceeds from the landfill tax. A tax on waste to cut a tax on jobs. This will benefit employers in Britain and make *it cheaper* to *create new jobs* in our growing economy.

Our overheads on jobs are already less than half those in Germany, France, or Italy. I am determined to keep that advantage over our continental competitors where the creation of new jobs is over-regulated and over-priced. This is another reason why I am confident that our unemployment will keep falling.

In this Budget, I propose to keep the three intermediate thresholds for employers' National Insurance Contributions where they are now. I propose to increase – by *£10 and £1 respectively – the upper* and lower earnings thresholds for employers' and employees National Insurance Contributions.

In this Budget I also want to address a particular concero of our small husinesses – the burden of non-domestic rates.

The Uniform Business Rate is a fixed cost which can rise each year



beyond the control of the manager of a small business. Since the last revaluaonn of business rates. I have repeatedly slowed down the increase nf rates for those businesses whose rates have had to go up. No husiness property has seen its rates go up by more than 7.5 per cent *above inflation* in *any one year*. But I want to do more than this.

I have decided to freeze next year's rates bill for all the *small* businesses whose rates would have gone up. Small properties whose rates are falling will have those reductions accelerated. This will benefit over one *million* small *business* properties, by up to £130 a year.

A freeze is an important step that I can make this year. We have already reduced business rates for rural village shops. But I realise that the present system of business rates bears particularly hard on the smaller business for whom they represent a much bigger proportion of total costs. We must therefore move on as soon as possible to more changes in the system to recognise this and redistribute the burden more sensibly between smaller and larger husinesses.

Inheritance Tax

This government is committed to reducing and then abolishing capital gains tax and inheritance tax. But we have always said that we will cut these taxes only when we can afford to do so. This is a responsible Budget *which is protecting future growth* and prosperity by putting the public finances into a healthier state.

We will not be able to make progress on both these taxes this year. But I am pleased to announce that we can take a further significant step towards abolishing inheritance tax.

Inheritance tax is a penalty on thrift, independence and enterprise. It is a growing anachronism. Lloyd George's maxim that "the most convenient time to tax the rich *is* when they *are dead*" *no longer* hnlds. It is largely paid by people of modest means who either cannot or simply do not make careful plans to avoid it.

Last year, I made significant progress towards our commitment. In this Budget I will build on that by raising the value of the inheritance tax threshold to £215,000.

That means, that in two years the *Government will have raised* the threshold for inheritance tax by 40 per cent.

Tax rewrite

In last year's Budget speech I announced a project to rewrite Inland *Revenue tax legislation in plain* English. This project is as amhitious as translating the whole of *War and Peace* into lucid Swahili. In fact, it is more ambitious – *War and Peace* is only 1,500 pages long, Inland Revenue tax law is 6,000 pages. And we did not have a Tolstoy to write our taxatinn laws in the first place. We have consulted extensively on how the project should be carried ont, and I am *glad* to say there is wide consensus. The Inland Revenue will puhlish the plans and arrangements shortly after the Budget.

The aim is to prepare a series of *rewrite Bills, the first of them to be* ready for enactment in the 1997-98 session. My nohle and learned friend Lord Howe has produced a thorough and helpful report on how Parliament might handle these Bills. We endorse his broad proposals, and invite the Procedure *Committee* to *consider how* the House is going to handle the Bills in a sensible fashion. Lord Howe has agreed to chair the steering committee which will oversee the rewrite project.

The project will bring the benefits of clarity and certainty to husinesses and ordinary taxpayers. It has been widely welcomed and deserves the continuing support it has eojoyed in all parts of the House.

Income Tax

Mr Deputy Speaker; this government has led Britain towards our clear goal of a low-tax economy where private enterprise has the incentive to generate jobs, investment and wealth to make people and their families more prosperous. We are moving towards a low-tax economy where individual living standards continue to rise and the Government can afford the excellent public services that people want.

Low direct taxes are the most effective way to encourage enterprise and hard work. Under this government those whn do an honest day's work and those who take *entrepreneurial risk will keep more* nf what they earn and save.

This year, people have taken more heed of my speeches on the overriding priority nf securing future prosperity and jnbs and financing key puhlic services. Sensible people already expect my cuts in *direct taxation* to be *modest*. They know their well-being depends on lasting growth and more *jobs* and that *living* standards rise from a combination of steadily rising incomes and steadily lowering taxes. Tax cuts matter a lnt to low-paid people and to men and women in ordinary jobs. I announced my income tax cuts last year as a return to our tax-cutting agenda and fnr *the second year in successinn*. I am delivering an instalment of that agenda. I want to ensure that tax does not start to be paid at all at too low a level of income and I want tn improve work incentives. I propose first of all to raise the threshold below which no income tax is paid at all. In this Budget, I am making an increase in the basic personal allowance of £280. That is three and a half times more than necessary tn cover the rate of inflation. It will also ensure that each and every person whn pays any income tax at *all* will get a direct benefit out of this Budget.

I am also increasing the married couple's and related allowances by £40, *maintaining* the extra tax allowance to all married couples. It will now be worth nearly £275 each year for married couples. The tax system does recognise marriage, contrary to popular belief.

We also give a special tax allowance to blind people. This year *I am increasing* that by the rate of inflation. And I will put indexation of this allowance on to the same statutory hasis as for the other income tax allowances.

I also propose to raise the threshold above which people start to pay the 40 pence higher rate tax by £600.

One of this government's most important pledges is that we will move tn a basic rate of income tax of 20 pence as soon as we can. We are proving that we can move towards the delivery of the promise and still deliver healthy puhlic finances. Every step we take makes it *more* and *more* credible. Every step that we take makes it more affordable to reach the ultimate goal *which* we are *getting tantalisingly* near tn. As a further step towards that, I propose to widen the lower rate band nf 20p tax by £200, twice as much as required by indexation.

This will mean that the slice of income on which a 20 pence tax rate is paid will have more than douhled during the *lifetime* of this Parliament. More than nne in fnur of all taxpayers now will only pay tax at *20p in the pound*.

Mr Deputy Speaker, this is the stage nf my Budget speech where everyone is asking themselves – are the guesses of the newspapers right? Am I indeed going to cut a penny off the basic rate of income tax? What the newspapers did not know was that my control nf public spending and borrowing would have allowed me to take 2p off if I had chosen to. But I *preferred* instead to raise personal allowances and widen the 20p hand fnr those at the bottnm end of the scale.

And yes, Mr Deputy Speaker, I am indeed also ahle to reduce the basic rate nf income tax, by I penny to 23 pence in the pound.

The small companies rate of corpnration tax will he reduced to 23 per cent in line with this, helping *400,000* companies. The main rate of corporation tax of 33 pence is already lower than in any other major industrialised country.

Seventeen years of steady progress – so far – means that the basic rate of income tax is now a full 10 pence lower than the rate we inherited in *1979*. It is at its lowest rate for 60 years. Its lowest rate since Baldwin was Prime Minister, Edward VIII abdicated and Wally Hammond scored a dnuble century at the Oval.

Another penny off the basic rate is a significant further step towards this Government's target of a 20 pence hasic rate of tax. For over 7 millioo people – our promise of a 20 pence basic rate is already a reality. I am bringing other income tax*payers ever closer to that reality*.

Twenty pence is a realistic and attainable goal for the next Parliament. We will not be content until we have completed the task of getting it down to 20 pence and every Budget I have presented has step by step shown how we are going to get there.

Living Standards

With increases in real earnings and the tax changes in this Budget, a family on average earnings will be another £370 better off next year over and above inflation. The same family will have over £1,100 more to spend each year after tax and inflation than they did before the last election. In 1992, the hackground was one of a worldwide slowdown and a recovery in the United Kingdom that had barely started. Now we are enjoying strong growth and rising living standards, and we are going to enjoy more of the same.

In November 1993 I promised that I wnuld put Britain firmly on course for a sustained period of rising prosperity and *falling* unemployment, hased on low inflation and healthy public finances.

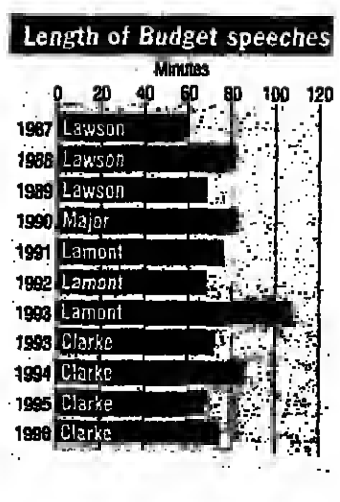
I have done what I clearly said I would have to do and I have delivered on those promises.

The Government believes in allowing people to keep as much as *possible* of their *own income so that* they can make their own decisions.

This Budget cuts puhlic spending next year by £2bn, and it generates an extra £500m in revenue through "Spend to Save". It contains a balanced tax package – it includes tax cuts of £2 billion while it secures the tax base by £1bn. Taken together the effect of the Budget is to tighten fiscal policy and so prntect healthy *lasting recovery*.

I am a man nf the world. I realise virtue doesn't always hrings its own rewards. But this virtuous Budget will bring rich rewards. The rewards nf economic success to the hard working men and women of this country. Never forget, good economics is good politics. This is nnt a Budget just for the next few months. It is a Budget fnr many *prosperous years* tn come. It is a Budget that this government will build upon again in 12 month's time.

I commend it to the *House*.



POLITICAL REACTION

LABOUR RESPONSE

Labour leader dismisses Budget as con trick

Stephen Goodwin

Tony Blair dismissed the Budget as "just a complete Tory con-trick yet again". Kenneth Clarke had given a little with one hand and taken with other, said the Labour leader.

"We have heard all their promises before. We heard them at the last election and did not believe them. But the difference this time is that the country doesn't now believe them either."

The instant Budget response is traditionally an awkward moment for the Leader of the Opposition. But Mr Blair set about the Chancellor's claims with masterly confidence. The Opposition was, perhaps, a little bit better prepared than normal, he joked, in a dig at the leak of Budget documents.

Contrasting a Budget "very, very big on boasts" with the facts, Mr Blair said it was certain that taxes would be higher at the next election than the last. "The Conservative Party that fought that election on the promise it would cut tax will after all the changes made today leave the average British family £2,120 worse off in tax.

'The Chancellor announced a tax-cheat crackdown. He should start with the Tory Party'

"The Chancellor announced a crackdown on tax cheats. I think he should start with the Conservative Party – 22 Tory tax rises." The party which Mr Clarke said had brought down the burden of tax had cut mortgage tax relief and the married couple's allowance and raised National Insurance contributions and VAT.

Mr Blair said close inspection of the Budget showed that the Tories were back to their "old tricks". Council tax was due to rise by about £4bn over the next three years, or 6 per cent.

Phasing out profit-related pay would be the equivalent of about 8p on the standard rate of tax for some low-paid workers. Then there were rises in the airport tax, insurance tax and measures on lone parents and company cars

"Give with one hand, take with another – that's the record of the Tories over the years." He reminded the House that Norman Lamont had promised before the last election there were no plans to raise or extend VAT and John Major had pledged to cut the national debt. It had doubled. "If they told these untruths then, why should we believe them now, no matter what they say?"

On closing tax loopholes, Mr Blair recalled that when Gordon Brown proposed this route, the Chancellor had said the loopholes did not exist and Mr Brown was "living in an Alice in Wonderland fantasy". Now Mr Clarke's spending plans depended on them

The Government always promised more for health, Mr Blair said. But when one looked at the facts of what was happening in the NHS, waiting lists were rising again, 36 trusts were in deficit, and there were 20,000 more managers and 50,000 fewer nurses.

Although Mr Clarke had said he going to put almost 3 per cent into the NHS next year, actual spending for the Department of Health in the year after was due to fall by 0.7 per cent, Mr Blair said. "Even in health, there is absolute classic 'take with one hand, give with the other'."

On education, he said the Government had promised an extra £800m last year. "What actually happened was this, because local authorities were already spending £800m above their limit, the real increase was less than inflation, so it's again just a Tory trick." Planned expansion of nursery education had been cut back by £56m reduction in the allocation for the nursery education voucher scheme. "Their problem is not just the trade gap, or the investment gap, or the skills gap, it's a credibility gap."

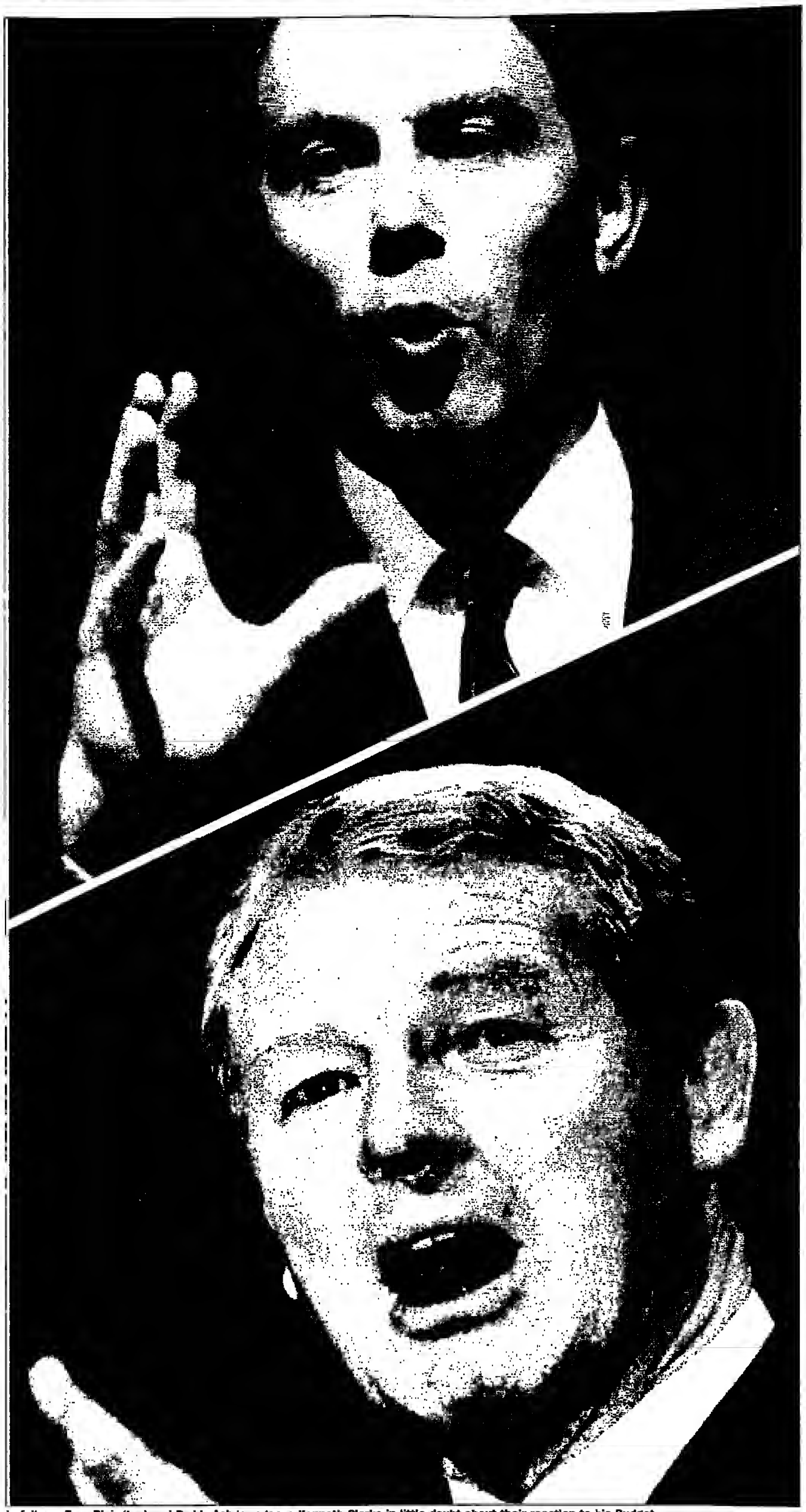
Mr Blair said the Government was running not on its record of a few months before the election but on its record of 17 years. The UK ranked 9th in the prosperity league and had fallen from 13th to 18th in the league table of living standards. Ministers said they had learnt from past mistakes, but recent figures for inflation and interest rates showed otherwise – the UK was 11th out of 15 nations, Mr Blair said.

The Chancellor had not told the House that manufacturing investment was 14 per cent on a year; productivity still lagged behind the UK's major competitors; and the trade deficit, according to government figures, was set to worsen.

The UK was not equipped for the future in education and skills, Mr Blair said. "Forty-second now in the education and skills league is not good enough. And cuts in the training budget won't help us to do better."

Since Mr Major came to power, the number of jobs in the economy had actually fallen, Mr Blair said. Last year, the year that the Government most boasted about, the number of full-time male jobs actually fell.

"Nothing in this Budget tackles those fundamental problems. When we're cutting training, when we're doing nothing but a few make-work schemes for the long-term unemployed, when the infrastructure's measured in cuts, when there's no help for investment, then I say without the measures for the long term, to increase investment, boost education, tackle that structural unemployment, we will never have that recovery or prosperity that lasts. That is why we say the Conservatives have failed."



In full cry: Tony Blair (top) and Paddy Ashdown leave Kenneth Clarke in little doubt about their reaction to his Budget

LIB DEMS

Ashdown writes off Ken as a conjuror

Peter Victor

There was talk of smoke and mirrors, a sleight of hand by the Chancellor. But the Liberal Democrat response to the budget was slightly muted. There was little in it to provoke them to anger although there was much with which they disagreed.

Lib-Dem Leader Paddy Ashdown pledged last night that his party would vote against the tax cuts in the Budget. He said they favoured putting the money saved on education and reaffirmed the Liberal Democrats' commitment to raise income tax to 50 per cent for incomes of more than £100,000.

Mr Ashdown said this year's Budget would be remembered as the "leaked Budget", but it should be known as the "smoke-and-mirrors Budget" by "conjuror Ken".

He declared: "This is a Budget of slick tricks and small measures. It pretends to be responsible, but it isn't. It pretends to give big tax cuts, but it doesn't. It pretends to invest in public services, but it won't. But, though the measures in this Budget may be small, the damage it will do will be big."

He went on: "The truth is that the economy is now at last growing steadily, but the Government is broke and they intend to squander our economic chances in order to improve their electoral ones." He said Mr Clarke had performed a "triple con-trick" on borrowing, spending and tax cuts. Mr Ashdown claimed the average family would be £41 a week worse off, despite the Chancellor's claims.

Alan Beith, the Liberal Democrat spokesman on home affairs, criticised the sections in the budget supposedly aimed at improving protection for the public from crime and boosting the number of police officers.

"The Government has merely stuck to its plan on increased police officers," Mr Beith said last night. "While they are promising increased officers after the election, the reality is that police authorities are crying out for new officers and new resources now - and they are facing rising costs on pensions and equipment.

"Michael Howard's obsession that prison is the only answer to rising crime means there are no new initiatives to cut crime. There is no commitment to innovative and effective crime prevention programmes which save the taxpayer money in the long run."

Lib-Dem Treasury spokesman Malcolm Bruce reiterated Mr Ashdown's comments on the Budget, saying that the electorate would not be conned by Mr Clarke's attempt to boost his party's popularity before the next election: "This Budget fools no-one – it is a triple Tory con trick. A Budget of smoke and mirrors which does not deliver the lower taxes, lower borrowing and higher spending claimed by the Chancellor."

Mr Bruce had predicted, correctly it transpired, that the Chancellor had little room for manouvre yesterday. "People are beginning to realise that you cannot defy gravity and the suggestion that you can easily redistribute expenditure, or worse still you can bring down inflation, borrowing, you can bring down taxes and you can increase spending on health and education simply doesn't add up."

INSIDE THE LOBBY

Middle England pays for a forgettable penny package

Colin Brown
Chief Political Correspondent

The leaking of the 1p cut in the basic rate of income tax took the shine off the Chancellor's Budget statement, and the package was being shrugged off as a "forgettable penny package" by some Tories.

The cheers had hardly died when Tory sources were attacking the Budget for being "anti-Middle England" by abolishing tax breaks on profit-related pay and going too far in the increases in duty on cigarettes.

The danger for the Government is that the gloss on the Budget appeared to be taken off the package almost as soon as the Chancellor sat down, partly as a result of Tony Blair's performance in the Commons, which was described by some Tories as "brilliant". One Cabinet minister claimed the Labour leader had the advantage of reading the leaked documents.

Labour MPs, including the left-wingers who are normally critical of Mr Blair, were delighted by his attack on the Chancellor.

Mr Clarke got the traditional desk-banging ovation from Tory MPs at a meeting of the Tory backbench finance committee.

The party's "spin doctors" had damped down expectations of a Budget give-away, and most Tory MPs praised the Chancellor's prudence and the gusto with which he delivered the package. But many were counting on the mini-boom in the housing market and consumer spending to help them win hold on to their seats at the election, not tax cuts.

John Redwood, a champion of the Tory right, who had called for spending to be reduced by at least £5bn, welcomed the package as "prudent", but said: "It is not an election-winning Budget in the sense that it doesn't give away an awful lot of money that we can't afford to give away. That would have been wrong.

"I think the Chancellor has made the right judgement and made sure that he is concentrating on running the economy well."

One of his supporters said it would not go do down well with the voters in the pubs in the Chancellor's own backyard in "middle England".

"It was massively anti-Middle England," he said. "It was extremely foolish to abolish the tax breaks on profit-related pay. And the increases on cigarettes went too far."

Tory Euro-sceptics described it as a "Budget for Maastricht". "He has only taken £2bn off public spending and he has cut £4bn off the deficit. It is manifestly a Budget for the single currency," said one member of the Redwood camp.

Euro-sceptics who forced Mr Clarke to make a statement on Europe at the despatch box on Monday said they would be keeping a closer watch on his performance after he made it clear the strategy would enable Britain meet the criteria for joining a single European currency.

The pro-European former minister Edwina Currie was enthusiastic. "It is a well structured Budget and the City will like it," she said. "It will also bring us on target for Maastricht. We should qualify for the single currency."

Welcoming the Budget, Norman Lamont, the former Chancellor and a leading Euro-sceptic, denied the Chancellor had "tweaked the tail" of the Tory Euro-sceptics. "I have always made it clear I regard the Maastricht criteria as good sound sense," he said. "I believe people should be sober, not drunk."

Mr Lamont, who will be fighting to hold Harrogate for the Tories in the general election, said: "It will increase the living standards of families in this country. I thought it was an excellent Budget ... The average family since the general election is getting on for £1,000 better off. That is very impressive and very good." Commenting on the public-spending cuts in the Budget, Mr Lamont said: "There is no free lunch..."

Tory MPs were also digesting the detail of the cuts in spending, including the road programme, which will disappoint many Tory supporters in rural areas who have been pressing for by-passes.

Harriet Harman, shadow social security secretary, protested that cuts in housing benefit would be a disincentive to work. Tougher rules will be extended from young people to all new claimants aged up to 60 to reduce benefit to the level of a room in a shared house.

Lone-parent premium will be abolished for new claimants in 1998, as reported on Monday in *The Independent*. "It means they will lose their flats if they take a temporary job and have to start claiming the benefit again in a year's time. It's a vicious attack on single people," said Ms Harman, who will be attacking the social security cuts in a full-scale Commons debate tomorrow.

The package was attacked as a "Tory con trick" by Malcolm Bruce, the Liberal Democrat spokesman on treasury affairs. "The question is the ability of the Tory Party to con the electorate," he said. "The average taxpayer will be paying £41 more once you take account of the council tax."

Mr Clarke said he would be neither Santa Claus nor Scrooge this Christmas. National Energy Action, the Government-backed charity responsible for putting heat-saving material in homes, described its £2m budget increase as "derisory".

Dr Brian Mawhinney, Conservative Party Chairman, accepted that the Budget was one designed with the long-term health of the economy in mind.

"It is a Budget to make people feel better off and we are going to work on that over the next five years," he said. "We are aiming for lasting prosperity."

Tory MPs and ministers sitting in the overspill gallery overlooking the Chancellor included David Willetts, the former ministerial aid to Nigel Lawson, when the *Guardian* received a leak of the Budget in 1984.

David Shaw, the right-wing Tory MP for Dover, said the Chancellor had the balance right for the recovery. Many senior Tory MPs went in prepared for a "steady-she-goes" package. One former Treasury minister privately admitted that more sweeping cuts in taxes would have been viewed sceptically by the voters.

"Ken has got it about right," said one senior Tory backbencher. "It's not exciting but it didn't have to be."

THE LEAK

Police to join inquiry into leak of secrets

John Rentoul
Political Correspondent

The Government inquiry into the unprecedented leak of Budget secrets started yesterday with an internal civil service investigation led by the Cabinet Office likely to be followed by a police inquiry

The 94 pages of press releases obtained by the *Daily Mirror* set out the details of many of the key decisions in the Chancellor's speech, ineluding the 1p cut in the standard rate of income tax.

Contrary to a report in yesterday's *Guardian*, the domestie intelligence service MI5 has not been asked to take part in the hunt for the leaker. Downing Street sources yesterday described the idea as "off the wall". The security service would only become involved if the leak posed a national security threat or threatened the economic well being of the country.

MI5 is not believed to have ever been involved in an investigation of this kind. But the Cabinet Office does use retired MI5 officers to help in leak inquiries. The former security service experts are part of a list of mostly retired civil servants that the Government can call upon during internal investigations.

A Government spokesman said that 2,800 sets of press releases from all departments had been delivered to the Treasury on Saturday so that they could be collated into bundles to be issued to journalists after the Budget speech yesterday.

First on the list of suspects yesterday were disgruntled printers at London Print Services, part of the newly-privatised Stationery Office in south London, which prints the Budget statements. The workforce at the company are unhappy about 900 redundancies announced on Friday, which they claim are in breach of undertakings given at the time of the sell-off.

But union sources said that the Budget press releases – unlike the bound copies of Budget documents – are not printed there. They said the leaked papers had probably been photocopied in the Inland Revenue, Customs and Excise and the Scottish Office.

The Stationery Office would not confirm whether it had printed the leaked papers, and said it had launched its own internal inquiry.

Suspicion then fell on an "inside job" by civil servants, a suspicion inadvertently fuelled by Barry Reamsbottom, leader of the Civil and Public Services Association. He suggested that his members had a motive, in that he could "understand" why civil servants should want to leak such documents. "Civil servants have been treated with contempt by this Government. they have faced 17 years of unremitting hostility," he said.

"The current Government has shown no loyalty to the civil service and has presided over its break-up and demise. Obviously whoever leaked these highly confidential documents to the press felt enough was enough."

Westminster speculation yesterday swirled around two other possible clues. One was the unexpected surge in the stock market on Friday, which could have reflected share-buying on the basis of inside information of an uneventful Budget, which yesterday further boosted share prices.

But City sources said that it was unlikely that news of Budget secrets could have been kept quiet in such a "leaky environment" as the Stock Exchange.

The other elue was the unusual behaviour of Piers Morgan, the editor of the *Daily Mirror*, in handing the documents back to Downing Street on Monday night.

Mr Morgan was saying yesterday: "I rang No 10 and said, 'Would you like your Budget back?'" It later emerged, however, that the Government had obtained an injunction to prevent publication of the material about 40 minutes after being told by the *Mirror* that it had the papers at 7.30pm.

Mr Morgan said in a statement: "It does not take a genius to work out that once the *Daily Mirror* had informed Downing Street that we were in possession of a substantial section of the Chancellor's Budget, that they would seek legal remedy to try and prevent publication.

"However, sueh legal remedy was completely unnecessary since we had already told No 10 that we did not intend to publish any of the details."

The *Mirror's* decision not to publish the information contained in the documents prompted speculation yesterday that the newspaper did not want to focus attention on how it had obtained them, perhaps because they had been stolen.

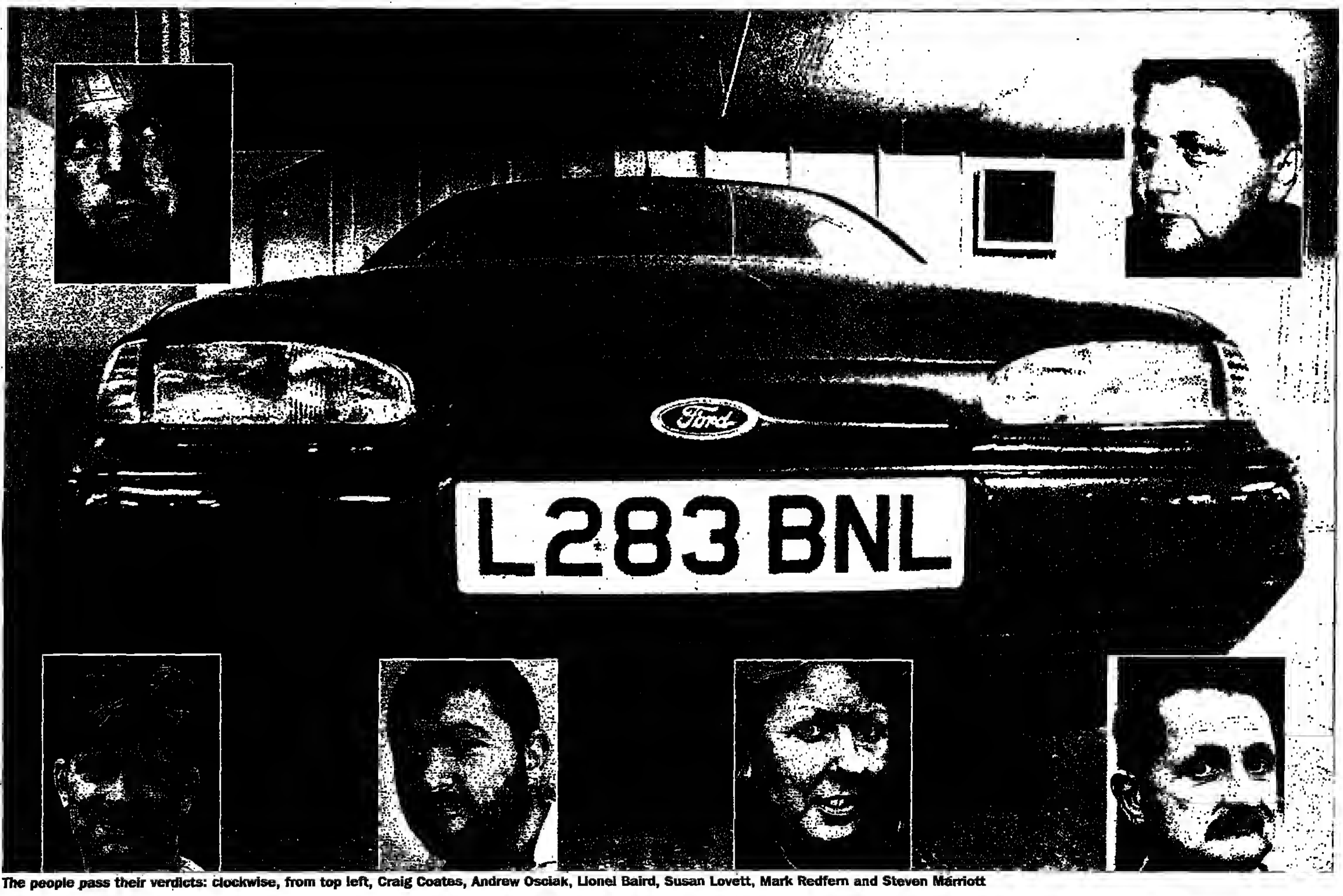
The history of Government leaks is not encouraging for Sir Robin Butler, the Cabinet Secretary in charge of the investigation.

The Independent's Hamish McRae scooped Nigel Lawson's first Budget in 1984 by revealing two weeks in advance that he would abolish tax relief on life assurance – prompting a huge rush of life assurance sales to beat the Budget deadline. Despite a police investigation, no culprit was ever identified.

VIEW FROM THE STREET

Mondeo man puts low-rev Chancellor in slow lane

The word from The Independent's panel of voters in Middle England does not look bright. Report by **Michael Streeter**



The people pass their verdicts: clockwise, from top left, Craig Coates, Andrew Osciak, Lionel Baird, Susan Lovett, Mark Redfern and Steven Marriott

Last month *The Independent* reported the views of a group of Middle-England voters from Redditch; the kind of people whose support will be crucial for any party hoping to win the general election. They were dubbed Sierra, Mondeo or Montego person after Tony Blair's recent declaradon that it was his meeting with a Midlands Ford Sierra owner at the last election that convinced him Labour was no longer the party of the aspirational classes.

When we first spoke to the group – who were almost all Conservative voters at the last election – there was a general air of dismay and some anger at the Government's performance. But equally there were signs of mistrust towards New Labour and Tony Blair.

Yesterday's Budget was one of the few remaining opportunities for the Government to make a real impact on the nation's fortunes before it goes to the polls. Here is our group's verdict on the Chancellor's critical performance. Much of it will make gloomy reading for Conservative Central Office.

Lionel Baird, 52, is a paramedic, and one of the many "unhappy Tories". He was looking for more commitments on education and in particular health – the area in which he works. Mr Clarke's announcements left him cold. "The increase in health spending is welcome but really it's just a drop in the ocean.

"The one penny off income tax will not make that much difference to me, perhaps just £4 or £5 a week, and I think I would rather have had to pay an extra penny as long as it was paid for something worthwhile."

Mr Baird , married with three children, said he welcomed the increase in the threshold on inheritance tax to £215,000 as a step in the right direction. But overall his reaction was that it was a "neutral" Budget. "It has certainly not convinced me about voting for the Conservatives again, they need to do a lot more. I'm still thinking about Labour."

Steven Marriott, 28, is a radio frequency engineer. His immediate reaction to Ken Clarke's speech was one of dismay. "I think it's a case of robbing Peter to pay Paul. They seem to be taking off on the one hand then hanging it on somewhere else." He was unimpressed by the penny off tax, and annoyed at the indirect tax rises on cars and fuel. "To be honest this does not make me like the Tories any more." However, he is still unsure of which way to vote.

Andrew Osciak, 45, a toolmaker, was unimpressed. The penny cut in direct tax would only benefit him by about £30 a year, offset by the rises in road and petrol taxes.

He contrasted the rise in road and petrol taxes with the deteriorating state of roads in the Midlands. He welcomed the extra money on law and order but added that there was no mention of the key issues affecting his region – job insecurity and low wages.

The Budget, he said, left him unconvinced by the Conservatives but he was so far no more persuaded by Labour.

Mark Redfern, 29, an engineer, was "disgusted". He was particularly incensed by the erosion of tax relief on Profit Related Pay, which he has been earning for five years. "That will cost me about £6 a week, and I'm supposed to claw that back elsewhere." He was also gloomy over the rise in tax on insurance premiums, airport tax – "that would have put £30 extra on my holiday this year" and petrol and car tax,"especially when you consider the state of the roads around here". As for the rise in the threshold for inheritance tax, "that's just for the rich".

A former Tory voter, he said:"I'm definitely not voting Conservative again – they give with one hand and take with the other. I will go for Labour."

David Bignall, 51, is a former British Telecom engineer who is medically retired. He calls himself a "disgruntled" Tory. Yesterday he welcomed the extra spending on health, education and law and order but criticised the hike in car and petrol taxes. "Overall I think it will cost me a bit more. I don't think it would make me more inclined to vote for the Conservatives or against them, it's pretty neutral."

Craig Coates, 37, and a father of three, earns £20,000 a year as a clerk of works. He describes himself as an ex-Tory but was not sure that he would vote Labour. Now, after the Budget, he says he is "turning more towards Labour". He said the 1p cut in basic tax was irrelevant and pointless at a time when basic services were suffering. "I would not mind paying a few more pence on tax if it went to health and education. The health service has gone to pot.

"This is not a vote-winning Budget, quite the reverse. I definitely won't vote Tory now." He said the £370 a year Mr Clarke said average families would benefit by was "trifling" compared to what needed to be spent on more important things.

Roger Frost, 54, a former Conservative voter, used to work as a British Gas travel manager, but took early retirement. He was looking for a "more adventurous" paekage, with larger reductions in direct tax. "As it is, for me it's a neutral Budget or even worse – I may be worse off." He highlighted the increases in airport, petrol and road taxes which would cost him more, and as a non-drinker he does not benefit from the eut on spirit duties. "As for the penny off on income tax, with all the other taxes going up it will hardly be worth it. I think it is a poor Budget and has not ehanged my mind at all – it's time for a ehange."

Susan Lovett, 38, a former sales consultant and now housewife, broadly welcomed what she called a "careful" Budget. "He hasn't taken much away and he hasn't given mueh out. I think it has good economics behind it, and I don't think he had much room for manoeuvre." She welcomed more spending on the police, and health and education, but felt that the penny off income tax was hardly significant. "I think I will still vote Conservative, though I will be interested to see what Labour have to say – so far there's no evidence that they would do much different."

Alan Tomes, 35, a cold store operator, earns about £12,000 a year. He was encouraged by more spending on vital services but, like many of the group, was unhappy at the rise in road and petrol tax. "That could wipe out the rise I get from the cut in income tax." As a shareholder he welcomes the move towards lower direct taxation but says that overall, the Budget will not be a major factor when it comes to voting.

Denise Sparkes, 35, a mother of two, works as a dressmaker and in a supermarket. She voted Tory last time and is now unsure. though she would "probably" vote Tory again. She welcomed the increases on health and education but said: "That's what I expected with the election coming, to make them look good. I think that's the kind of thing that most of the British public want." She thought the income tax cut would make a marginal improvement, especially for her husband, but attacked the £5 rise in road tax: "That seems to go go up every Budget." Overall she thought it would make little difference to how she votes. "I will read what they have to say at the election."

Comment p14

Imprudent turkeys plumping for guns and no brains

POLLY TOYNBEE

This ought to be an unpopular budget. "Prudent" income tax cuts and £2bn cut from public spending? An effective cut in education will mean bigger class sizes, when people say they want more spent on schools. Do people want hard-working single parents who struggle to keep their families off social security to lose more than £6 a week. One Parent Benefit? It is not what people say they want. When asked voters say they want more government spending and more taxes – but the Government does not believe them.

So are we a nation of turkeys voting for Christmas? No, we are a nation of turkeys who pretend to vote for Christmas – that, at least, is the spin the Tories are putting on their abysmal shewing in the polls: they see voters as a kind of baked Alaska – Labour hot-cake on the outside but underneath they are all really frozen-hearted tax-cutting Tories.

Last week's British Social Attitudes survey revealed that an ever growing number of people - 61 per cent now, compared with only 32 per cent in 1983 – say that they want to spend more on education and health even when it is spelt out explicitly how much more they will each have to pay. Even the rich say they would pay more income tax for the NHS and state schools.

We are a low-tax country – despite all the right-wing rhetoric to the contrary. "Less government" goes unchallenged as a synonym for good government and "less tax" is called prudence rather than slash-and-burn social vandalism. Yet in Europe only the Greeks pay less – and even they have a higher top rate. Germany and France pay 10 per cent more of their gross domestic product. Belgium and Holland pay 15 per cent more. The US and Japan pay less but if you add their private health costs, it comes to the same. This should be no surprise: we look and feel like a low-tax, low-rent nation. We have let ourselves go, we are down at heel, unkempt, uncaring and uncared for – the tramps of Europe. Steady-as-she-goes-on-down-hill was not what we needed yesterday. We needed more taxes.

The education budget is some £2bn short of the proportion of GDP spent on it in 1979. The health budget fared better but there will still be a rough winter as one-third of health authorities have already run out of funds. Social security was cut again, striking savagely at both working and benefit-dependent single mothers, despite new evidence showing that one in three children are born into deep poverty. However, defence was protected and allowed to continue on its rip-roaring procurement spree, spending twice the European average. We will still buy 232 Eurofighters for £16bn, 386 new Challenger tanks for £1.1bn and 64 EH 101 helicopters for £1.5bn. Is that prudence? All guns and no *brains*.

The Government has a low view of voters as sanctimonious liars mouthing pious sentiments in public but letting greed rip in the polling booth. So Labour is taking no risks. After four defeats, they have abandoned their view of the voter as a decent sort and adopted the Tory model of the voter as selfish, lying bastard. Soon after the last election I talked to a deeply depressed Labour shadow cabinet member who cursed the voters bitterly and concluded: "The only way we can win is to lie and cheat about taxes the way the Tories do." So let us hope that is their secret strategy. But how will we ever persuade people that government is essentially good, healthy and necessary if no reputable politicians ever dare stand up and say so?

What if Labour came clean? Yes, they could say, we will levy some more taxes but we will spend that money well on judicious projects to improve the brain and health of the nation and the fabric of society. They could promise a erime-busting package to target the young in most danger of turning into criminals – programmes such as these:

■ *Intensive high quality nursery education*. To improve the chances of deprived ehildren and provide for all three- and four-year-olds. it would cost £1bn – yesterday's 1p off income tax cost £1.5bn.

■ *After-school and homework clubs*. The Kids Club Network say £50m would create clubs for a million children, helping them with schoolwork and keeping them out of tronble.

■ *Contraceptive clinics for the young*, to guarantee any girl a elinic appointment within 72 hours: £2.5m.

■ *Young offenders*. NACRO's motor projects for joy-riders eut local Twoc (taking without consent) rates. Schemes for all 8,000 annual offenders would cost £1.3m

■ *Care leavers and runaways*. Save the Children runs drop-in centres with advice on drugs, sex, accommodation, training and jobs. Care leavers account for 25 per cent of prisoners. Each local project costs £250,000 (or two and a half prisoners for a year in jail. Mr Clarke announced £450m more for police and prisons).

■ *Halesowen Community Project*. Barnado's support group for families in crisis costs £148,385 to help 210 families on the edge – the same price as taking three children a year into care.

Those are just some random examples of what Labour could do in power. But should they admit now that they will raise taxes to do it? That wise old bird, Bob Worcester of Mori, advises Labour to lie like everyone else. When Gordon Brown gets into office he should open the Treasury books, slam his hands on his face, give a Munch-like scream and announce that due to Tory mismanagement (true), there will need to be higher taxes after all (true). Alas, honesty now will not pay.

The global world of tax and spend

Hamish McRae

Wasn't it strange, listening to the Budget speech yesterday? Strip away the few bits of party-political clothing and the substance could have come from the other side. Fiscal responsibility; curbs on tax fraud; commitment to spending on education and the NHS: ending of profit-related pay; tax cuts focused to the bottom end of the income tax scale. It is all the sensible, practical stuff that either side would have offered the voters – and an astonishing contrast to the highly partisan Tory budgets of the Eighties, or late-Seventies Labour.

This sense of bipartisanship was further enhanced by the opening words of the response by the Leader of the Opposition. Tony Blair started by attacking the Government for making voters "worse off in tax" than they were at the last election. He used those four words twice. The attack broadened out later, but it is a topsy-turvy world when Tories stress the rise in spending in real terms on education and health, while Labour attacks them for putting taxes up. What's up?

What's up is that this is a mature economic cycle, following a nasty recession. The mature economic cycle is responsible for rising incomes, rising consumer spending, of course more jobs, and, thanks to rising tax revenues and lower social security payments, the opportunity both to reduce the deficit and trim some taxation. The recession led to the surge in borrowing and the need to jam up taxation to correct that.

The common theme between this Budget and one that Gordon Brown might have introduced is that there is a right way of running Government finance in a modern developed country, and both parties know it. The difference between Mr Clarke's comfortable presentation of fiscal prudence and tax cuts, and Mr Blair's charge on the tax front, is explained by the different state of the economic cycle. And if you want to get political, the recent success of the UK economy has been partly the result of the unplanned exit from the Exchange Rate Mechanism, not something that Mr Clarke stressed in his speech.

The Budget – and the next one, whoever delivers it – are now subject (as in all other countries) to the powerful external discipline of the world's financial markets. Check through the main headings under which budgets are judged and how does this look?

Fiscal policy? OK, but nothing more. I expect that when the figures are finally done in a couple of years' time, we will turn out to be the only major European nation to have a budget deficit in 1997 of less than 3 per cent of GDP. Given that that is supposed to be the Maastricht limit, this will be a bit of a laugh. But 3 per cent is not wonderful. Market estimates for the US next year are a deficit of only 1.5 per cent of GDP: Canada should hit 1 per cent, and Australia may have a balanced budget.

Implications for interest rates? Nothing special. The Chancellor said he was tightening fiscal policy so that monetary policy would not have to be tightened. But it is going to be. Interest rates are going up next year in response to very strong economic growth. The only issue is by how much.

Public spending? The financial world is not interested. If we as a country want to spend more on public services and raise more in taxation, that is our business; and if we want to spend less, it is our business too. All it looks for is reasonable competence in spending plans and the fact that spending is covered by taxation. Of course the business world, the real world of practical investment by multinationals, does care about spending on infrastructure, but increasingly recognises that this is becoming a private sector responsibility.

The shape of the tax system, in particular the shifting around of indirect taxation and the modest cuts in income tax? Again, this is no big deal for the world as a whole. What they will see is a pretty standard Anglo-Saxon taxation system – similar to Canada's and Australia's, and in some regards that of the US – in contrast to a Continental European tax system, which has much higher social security charges. This will affect business investment decisions, where social security charges are discouraging new inward investment on the Continent. So in that sense the commitment to a pro-business environment is welcomed. But the scope for radical change in any country's tax system is limited. The world's financial markets know that; Kenneth Clarke knows that: Gordon Brown knows that, too.

When Denis Healey was Chancellor in 1976, public spending reached nearly 48 per cent of GDP. Now it is heading down towards 40 per cent. The tax base is wider, and more revenue comes from taxes on spending and less from taxes in income, but the percentage figure is the key one. In another 20 years, unless there is some catastrophe which we cannot foresee, expect the shift to indirect taxation to have gone even further and the total spending to have come down by a few points more. That will happen whoever wins the next election. Government nowadays is about competence, not about ideology – as yesterday's exercise in the Commons by both Mr Clarke and Mr Blair made utterly plain.

All in the line of duties

With the aim of fuelling a 'Rolls-Royce recovery', Clarke has stuck to prudent principles

Donald Macintyre

Nobody had quite believed him. Week after week he said he would not bring in tax cuts he couldn't afford. Week after week he insisted that "good economics was good politics". For all that there cannot have been many Tories who thought that Clarke would actually take £1.75bn out of the economy in the Budget before an election. What's even more remarkable is that Clarke appears to have convinced most Tory backbenchers that while it may not yet win them the election, it was the right Budget for the times.

There is nothing apologetic about Ken Clarke. He joked about the leak of Budget details to the *Daily Mirror* – as devastating in its own way as the one which forced Hugh Dalton to resign in 1947, though not of course on this occasion of the Chancellor's making – and produced characteristically Clarkeian flourishes throughout his speech. "I am not going to play Santa Claus but this year I don't have to play Scrooge either ... This is a Rolls-Royce recovery and it's built to last ... income tax is lower than at any time since Stanley Baldwin was Prime Minister and Wally Hammond made a double century at the Oval."

At one point he even pre-empted the Cabinet-making prerogative John Major will have if he wins the election and spoke of "my Budget next year". And cheekiest tease of all, he said that his forecasts now projected an economy which "by happy coincidence" would meet the Maastricht criteria of a public-sector deficit below 3 per. cent of GDP needed to qualify Britain for a single currency.

But even some of his die-hard opponents on the Tory right appeared prepared to forgive him this as he rekindled flickering hopes in many a breast, if not that they would now win the election, that they would at least have a story to tell on the doorstep. A year ago there was backbench disappointment that he had not cut income tax by more than 1p; this year, despite the relative imminence of polling day, there was markedly less – even though Clarke had tantalisingly said in his speech that he could have chosen to reduce the standard rate by 2p instead of using half the money available to raise thresholds and personal allowances. A 2p reduction in the standard rate would not have helped the poorer on the 20p rate – which the other changes do.

Of course not all the savings – and therefore the optimistic borrowing forecasts – can be guaranteed: the "Spend to Save" programme to stop not just social security cheats but, at least as popular, those industrialists who are evading VAT and Corporation Tax, is a gamble. So far we only have Clarke's word for it that it will bring in a whopping £7bn over three years. His borrowing forecasts depend almost entirely on growth reaching 3.5 per cent next year. And if that target is met, then holding inflation to 2.5 per cent is optimistic. In excoriating the Government's record of broken promises Tony Blair delighted left and right of his own party with an exemplary opposition speech which showed, among other things, what a help some leak-based preparation can be.

Clarke also repeated his theoretical adherence to ending inheritance tax – suggesting that Lloyd George's dictum that the most convenient time to tax people is when they're dead was now obsolete. His and John Major's conversion to this goal is still inexplicable: an entrepreneurial, dynamic society isn't helped by creating new generations of young men and women who don't need to work. Clarke did nothing about the trusts that the very rich use to avoid paying those taxes. Nevertheless, although he trumpeted his only change to the tax as another step towards abolition, it was modest – raising the threshold to £215,000.

But none of this should disguise the clear strategy behind Clarke's Budget speech yesterday. Labour may find that by raising capital taxes on long-term plant, which especially affects utilities, Clarke has produced his own modest but permanent substitute for their windfall tax. But taking short term tricks off Labour wasn't Clarke's main purpose. It was, first, to give the impression by fiscal tightening that he is serious about building a lasting recovery rather than a short-term boom. And that he believes the voters will respect the former more than the latter. The reliefs he is calling in on Profit Related Pay and the indirect taxes he is increasing – like those on tobacco and fuel, insurance and air travel – attest to his seriousness about clawing revenue back to pay for the income tax deductions. They also chime with Clarke's long-held conviction in favour of taxing at the point of consumption. This is a man who would spread the VAT net wider if it was politically sustainable, who likes good, honest, old-fashioned duties.

But it also has a more direct purpose. Deeper cuts in taxation might have been cheered by the backbenchers. But for the less excitable voter they would not have shown up in pay packets until April – and who knows? By then the election may even be gone and over if John Major is forced to the polls.

By contrast, if he had to apply monetary brakes instead of fiscal ones, and hike up interest rates because he had cut taxes overall, then the impact on homeowners in higher interest rates would have been immediate. Just at the moment when many hope, as Clarke reminded the Commons yesterday, to escape from the trap of negative equity, they would have found themselves knocked back by increases in mortgage payments. This was a Budget designed to limit, if not elliminate, the need for higher loan rates.

For years after Labour's unexpected defeat in 1970, Roy Jenkins's budget was blamed on the grounds that it was too austere. But the Jenkins budget was well received by the public. Clarke himself has always believed that the authority and prudence of the Jenkins budget was a vote winner rather than a vote loser.

There's another parallel, too. Having devalued in 1967, Labour was still struggling in 1970 to erase the memory of failure in the same way that the Tories still bear the scars of having been ignominiously bumped out of ERM in 1992.

That made it then, and makes it now, all the more important to demonstrate economic competence; not just to satisfy the markets but also to reassure the electorate that the Government is in charge. If anything, Clarke's mantra, that good economics is good politics, is especially appropriate to the times. In one sense Clarke has been even more prudent than Jenkins. Jenkins injected about £1.5bn (at present day prices) into the economy, while Clarke has tightened fiscal policy by £1.75bn. But of course he can only afford to do that because of the rate at which the economy is growing. In some ways, therefore, the better comparison is with Reginald Maudling's 1964 budget in which, faced with a rapid increase in economic activity, Maudling did nothing to put the brakes on. Clarke has not made that mistake.

Kenneth Clarke had been here before, exactly two years ago. Then, as this year, he had been forced into a high-profile Commons exchange with his fellow Tories over Europe on the day before his budget. On Monday he rescued the Tories from yet another looming crisis over Europe. Last night his colleagues were hoping that the Budget can offer just a chance of rescuing them from a much bigger calamity than that.

Another day, another Budget: Gladstone attempts the traditional Chancellor's trick of reconciling democracy and sound economic management Photograph: PA

Your tax cut is my pay cut

Conrad Russell

There are sound reasons of self-interest for us all to support more public spending

A generation ago, when inflation was threatening to get out of its cage, Spain was wondering whether to push Francoism back into its cage, and Harold Wilson was in office but not in power, it was fashionable to discuss whether democracy was compatible with sound economic management.

It comes as a shock today to remember that this was because democracies were supposed to have too high a propensity to spend and, therefore, to tax. Today, anyone listening to John Redwood or to John Townend may wonder whether democracy is a threat to good economic management because it yields too *little* taxation and spending. A Treasury official, testifying to the Treasury select committee on the private finance initiative, has justified it on the grounds that voters will never consent to the amount of taxation needed for investment in public infrastructure.

"Never" is a short time in politics, and memories of the last generation show that the present pattern of political attitudes to taxation need be no more immutable than the last. This is nothing to do with altruism, which is only a different sort of feelgood factor. It is a matter of sheer self-interest. Since this is a broadly neutral Budget, voters can match £2bn of cuts in spending with £2bn of cuts in tax and can ask whether they would have preferred both or neither. They can even, if they are heretical enough, ask whether they would have liked to have paid a little more and get a little more for it.

For workers in public service pay (and as a university professor I must declare an interest), self-interest takes a special form. Other people's tax cuts are our pay cuts – as the current university strike illustrates clearly. Proposed legislation against public service strikes may be the herald of many more such pay cuts. Public service workers are 21 per cent of the workforce, or two-fifths of a majority.

Others may say that there is no such thing as a free tax cut – the money just comes out of the other pocket as charges. Prescription charges, dental charges and season tickets are obvious examples. Nothing in this Budget will make those charges any lower. Being a parent of a student alone costs a thousand a year above grant plus loan. There is no sign that the small but welcome increase in higher education funding is meant to meet that cost. And that cost alone may be more than the value of any tax cut.

Increasingly, some of us may feel less safe because of spending cuts. The closure of the research centre that detected BSE is a paradigm. When I read John Major's party conference boast that rail privatisation had been a success, I was travelling at half speed over the stretch of line on which the Watford train crash happened. I remembered that one of the trains in that crash had no black box, because it could not afford to maintain one.

When I go home on the Tube after writing this article, I will feel less safe because I know the Government thinks I would rather have a few pounds in my pocket than have London Underground properly maintained. When I read about further cuts to local authority funding and think of the consequential strain on the already desperate budget for care in the community, I will be more afraid of meeting another Christopher Clunis armed with a knife on my way home. I would pay to avoid this.

I would pay more tax now, because I would like to pay less in five years' time. The Treasury never counts the displacement costs when the dislocation caused by its cuts falls on the budgets of other departments. The effective abolition of single-parent premium is a cut falling on families, some of whom are already suffering from malnutrition. That is a cost for the National Health Service, which is already increasing its spending on screening for malnutrition. What the Chancellor has done is not merely cruelty to children in the name of family values: it is incompetent budgeting and we will pay more for it.

The same is true of the new ceiling on housing benefit. It is almost certain that there will not be enough housing available at the new lower limits of eligible rent. Many people on benefit will therefore become homeless. That is not just a humanitarian issue – a rate of TB among the homeless on the London streets is 200 times the national average and TB is a very expensive illness.

Many of the Tory spending cuts have been like saving money by not mending a hole in the roof. They cost a great deal more in the long run. As a taxpayer, I don't want any more tax cuts – I don't believe I can afford them.

The Earl Russell is Liberal Democrat spokesman for social security in the House of Lords.

THE INDEPENDENT

Nottingham chutzpah: daring to be dull

Is politics becoming an occupation for adults? Once, the clever thing was to shower tax bribes before an election. Now, the clever thing is, it seems, to withhold them. Kenneth Clarke has decided that if his party is to have a ghost of a chance of winning in the spring, he needs to be shockingly responsible: credibility before largesse. This does not necessarily mean being politically suicidal: after all, even people who intend to vote selfishly need an excuse.

> There was not nearly enough here to make Middle Britain roar or send it galumphing back into the Tory camp

So yesterday he did his best to give them one. He produced a cautious package for the cautious middle classes. It was dull. But it was comfortingly dull – old-Volvo dull; wholemeal-loaf dull; cardigan-dull. After all the build-up, Clarke, the great political exhibitionist of the modern Conservative Party, reached swaggeringly into his hat, gazed challengingly around... and drew out a small and shivering rodent.

He was rewarded in one sense, immediately: had Clarke planned a theatrical coup of a Budget, with the sort of beadline-grabbing stroke that Nigel Lawson and Norman Lamont delighted in, then yesterday's leak would have ruined his day. In this case, though the fact of the disclosure mattered, it turned out to be less of a scalding leak than a tepid trickle of expected news coming just a little early. Its key measures were just the sort of thing unimaginative but level-headed commentators had been predicting: no wild irresponsibility, no shameless giveaways, no outrageous gambles. No fun at all, in fact.

That, in itself, gave the Opposition a problem. Tony Blair did an excellent job in tearing at the Conservative economic record, performing instant antopsies on the Chancellor's figures and reminding the House of the embarrassments that followed the 1992 election. Perhaps, given the leak, this was not surprising. Blair was far more effective attacking the Government generally than what he called "this last gasp Budget" itself. Again, not surprising: many of the measures bere would have passed unremarked in a Blair-Brown budget. Indeed, if Labour win next year, there was plenty here – the "spend to save" anti-fraud programme; the abolition of profit-related pay schemes; the changes in the tax treatment of small companies – that one would expect them to take over.

Does this mean it was a pointless Budget – even an apolitical Budget for these less than heroic days? In fact, it had plenty of Clarke's personality running through it, and a certain amount of nerve. Like all budgets, it was founded on a central conceit. And, if we dig a little deeper, then there was evidence of Clarke's political optimism in it. The conceit – tbe joke, almost – was that this a mid-term Budget. It was an interim report by the party of perpetual government – less the pre-election Budget of 1996 than a Budget which happened to come between the Clarke budget of 1995 and the Clarke budget of 1997. Time and time again, in his text and asides, the Chancellor referred to what he and the Government intended to do after the election. Given the polls, this rates as chutzpah – or whatever they call chutzpah in Nottinghamshire. If it wasn't for Europe, this man would certainly be the next Tory leader; it was the sort of unself-conscious confidence the party bas long lacked.

There was some modest ballot-box thinking here, of course. Clarke's emphasis on coming improvements in London transport; his raising of the inheritance tax threshold (a virtuous tax, and one which he should have left well alone); and his clear offer to lower-income voters of a 20p basic rate one day, were among the measures targeted at swing voters. But most of us remember budgets not by the detail but by their headlines. And there was not nearly enough here to make Middle Britain roar or send it galumphing back into the Tory camp. Clarke's assumption, of course, was that his party has passed the stage when a budget, any budget, could achieve that transformation. After what happened in 1991-3, he clearly thinks that his party is unable to use the tax weapon as dramatically in 1996-7. It has forfeited bribery.

In that he is probably right. But once they have calmed down and talked to their constituents, this gamble about the people's better nature is unlikely to please Conservative backbenchers. There will be mutterings about damp squibs, "peanuts" and non-events. A public ready to voice outrage about being bribed will be briefly outraged about not being bribed. Right-wingers will ask themselves whether the tried and trusted ways are not, after all, the best. Remember, they will say, that whatever their reputations, the budgets of 1986 and 1991 helped win us the following elections.

We think they are wrong, simply hecause the public mood has changed: to do that again would be too crude, too obvious. It would surrender the moral high ground entirely to Labour. This was, by modern standards, an honest and responsible affair: wbo can seriously wish it otherwise?

More interesting is whether Clarke should have gone the other way and tried to outflank Blair properly by refusing to cut taxes and instead increasing spending on sensitive and popular areas, like education and training, more than he has. This would have been the best thing possible to prepare Britain for the next decade. Politically, it would have sent out a clearer message than the Chancellor did yesterday. It would have fitted his own pro-welfare instincts. And it would have reclaimed One Nationism for the Tories – a bold stroke indeed.

In the event, given the rightward drift of the party, that would probahly have been too provocative a move for the Prime Minister to accept, never mind the back henches. So the result is a compromise between Ken Clarke and the Tory party. This was not at all a bad Budget. Perhaps, like Winston Churchill's slightly disappointing pudding, it lacked a theme. But we are delighted that it was not the display of crude politics some Tories bad been praying for. Yesterday, they got clever politics instead. Too clever? Perhaps. They, and we, will find out soon enough.

Andrew Marr, Editor

Meanwhile, the economy ticks towards a boom

The Chancellor was sound enough not to offer a pre-election bribe. But now he will have to raise interest rates

Gavyn Davies

The concept of the pre-election budget has a very powerful place in the mythology of British politics. The idea that the income tax rate has to be cut by at least 3d ("thruppence" in old money) in the run-up to an election dates back at least to the period of Tory rule in the 1950s, and this notion seems to have gained powerful reinforcement during the 1980s.

On the other side of the scale, no one ever tires of blaming Roy Jenkins' austerity budget of 1970 for losing Labour the election of that year.

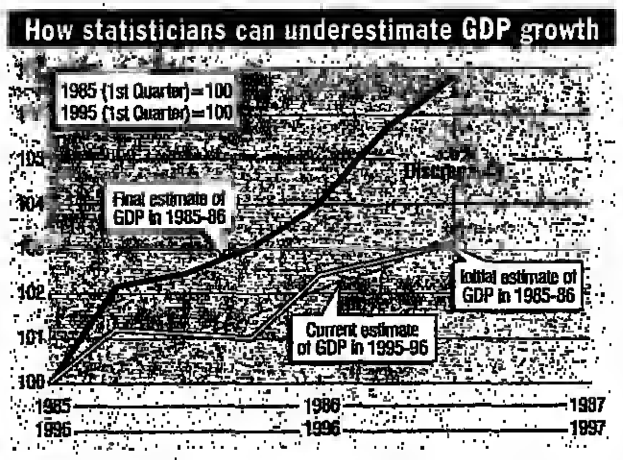
Actually, the mythology of the pre-election hand-out is largely just that – mythology. Geoffrey Howe's pre-election budget of 1983 was thought at the time to have been really very responsible, with virtually no hint of a bribe. The Lawson budget of 1987 did contain tax cuts, but even larger cuts actually came a year later, well after polling day. Norman Lamont cut tax by a tiny £1.6bn in 1992, and his decision to allow public spending to surge also took effect after the election, not before. Even the Roy Jenkins budget of 1970 does not fit into the myth very easily. When announced, it was one of the most popular budgets of the post-war period, and its main contribution to Labour's defeat (accordingly to Jenkins) was that its very popularity encouraged Harold Wilson to go to the country earlier than he would otherwise have done.

Ken Clarke's pre-election Budget fits into this pattern very well – vote for me because I am not so vulgar as to bribe you to do so.

Tax cuts and public spending cuts were roughly offsetting in scale, always provided that closing loopholes actually raises money, and that the next government sticks to the spending restraints announced yesterday.

Both Labour and the Tories promise to be well behaved on spending, but in practice there will probably be some slippage. And loopholes have a nasty habit of opening, not closing. Okay, there are some net tax cuts, perhaps more than most economists think sensible, but they amount to a princely 0.2 per cent of GDP. This touch on the tiller will scarcely be noticed by our tanker of an economy during 1997.

How statisticians can underestimate GDP growth



Furthermore, while Ken Clarke's package of new measures shuffled around some money in a roughly self-financing manner yesterday, it left in place a fiscal baseline which will reduce the public sector borrowing requirement by £7bn next year.

This is because the baseline cuts in public spending as a share of GDP, agreed by the Cabinet many moons ago, are actually very large. If he now leaves the Treasury, Mr Clarke will be one of the very few chancellors who have tightened the fiscal stance in each year of their term in office. And more power to his elbow for doing so.

But of course in an ideal world he should have tightened budgetary policy much more than he has done.

Given the way the economy is hehaving, the PSBR in 1996/97 should have heen much lower than £26bn, and it should be falling further than Mr Clarke plans next year. For the truth is that the economy is now embarking on a powerful and dangerous consumer-led boom, much as it did in 1987/88.

Money supply, house prices, unemployment, unfilled vacancies, business and consumer confidence – all tell the same worrying tale. They spell the need to raise base rates quite soon if the boom is not to get completely out of hand.

But what about GDP, many may ask. Has this not grown by only 2.4 per cent in the past year – scarcely a dangerous figure? Certainly, that is what the official figures are showing, but examine the graph, prepared by David Walton at Goldman Sachs.

It compares the path for GDP in the past two years with that which was recorded in 1985/86, just hefore the last boom really exploded. The present estimates for GDP this time track the initial estimates for GDP in 1985/86 quite closely. But we now know that, in reality, GDP was very seriously underestimated last time. Final figures show that it actually grew by 3.6 per cent more than was first thought in 1985/86.

If the same turns out to be true this time, then there is already no spare capacity in the system, and the coming hoom will assuredly end in tears.

That is a danger which was left virtually untouched yesterday, and which the Chancellor will now have to address by raising hase rates.

The writer is chief economist at Goldman Sachs.

Only whisky-swilling blokes will drink to Ken

When it comes to the Budget, there is a conspiracy between politicians and the media. I refer not to the leaking of its details to the *Daily Mirror* and that paper's sudden urge for establishment approval in not publishing them. I am talking about the conspiracy to make the Budget appear far more exciting than it actually is.

There are people out there who don't even know which day the Budget is. They certainly don't expect it to change their lives. It is just another thing that politicians do to justify their own incomes. Those in the know had predicted nearly everything that was in this year's Budget, without the help of any leak.

Yet somehow the whole dreary process has to be made more dramatic. The BBC wheels in Peter Snow, emoting over more and more sophisticated graphics. Budget Town is arranged around a pound sign. Intrepid reporters interview ordinary people who say ordinary things, like Cliff up in Leeds: "Basically I'm hoping to be better off – I don't really want to be worse off."

Before the big man speaks, John Major and Tony Blair go through the motions, bohhing up and down, irritating the hell out of each other. Kenneth Clarke is flanked by a smirking Mr Major and a yawning Michael Portillo, and Mr Clarke turns into Clark Kent, suddenly Mr Decent Chap, whose popularity is hased on his ability to out-bloke all the other blokes around. This, we are told reverently, is theatre.

We the punters are expected to be impressed by the ritual of the whole event. The Chancellor appears with his battered old hag, and if he has a wife, she for some unexplained reason is expected to be on show too.

During his speech, he is allowed to sip at a glass of malt whisky. It's hardly action-packed, is it? I don't even like whisky, but anyone who has to sit through this hour and fifteen minutes should be given it free by the NHS, if you ask me.

The reality is thar however many Peter Snows you have, none of it is that impressive. The idea that Ken tells it like it is and thar the Budget is politics at its most *grounded* is a lie.

The Budget is a fantasy brought about by party politics. If the Budget were to be decided by economic criteria, then it would look very different. The idea that when it comes down to it we are all selfish bastards is what propels the whole sorry mess.

Politicians assume the lowest motives when it comes to voting. We vote, apparently, on the basis of bow much tax we pay, so for a Budget to go *down well it must cut taxes*. This is what the public wants, or so everyone tells us. Amazingly, though, all the pre-Budget coverage could not unearth those clamouring for tax cuts. Most people said they would prefer a degree of social responsibility and would like to see increased spending on bealth, education and law and *order rather than* a *tax* cut. The only people clamouring for tax cuts appear to be Tory backbenchers, so will they be happy with their penny off?

Suzanne Moore

> To carry on taking money from women and children is not only immoral, it is surely bad economics

Still, in an effort to arouse us, experts wondered if the Chancellor had anything exciting up his sleeve. The answer, in short, was no.

It was what we expected. Good news if you are a spirit-swilling bloke, bad news if you are a single parent. As Mr Clarke told us: "the tax system does recognise marriage", and is determined to shore it up by further penalising impoverished women. The notion that for an extra fiver a week we would all walk down the aisle is ludicrous.

This years' Budget followed the recent trend in that in effect it redistributed income from the pockets of women into those of men. Last year's cuts in taxes henefited men far more than women. To carry on taking money from women and children is not only immoral, it is surely bad economics.

Such short-term politically motivated policy not only produces long-term social problems, it contributes to an increasingly unequal society; and surely even Ken "I'm a man of the world" Clarke must realise this. While the Tories' rhetoric about single parents has calmed down due to its unpopularity, its fiscal policy represents its disgusting attempt once more to categorise certain sections of the population as the undeserving rather than deserving poor.

The bogeyman of dole scroungers, of those who commit benefit fraud, *is the only* thing that the Tories do consider worth spending money on. No one mentions the piles of unclaimed benefit. No one mentions the fat-cat scroungers and their ingenious varieties of fraud.

Still, just as the different ways in which the Budget affects men and women and the very rich and the very poor must remain invisible, so too the differences between direct and indirect taxation must he glossed over.

We may he paying more tax in a variety of ways, and yet we must he told over and over again that we are paying less. This may help to fuel the current "mini-boom", but even Mr Clarke admitted that this is a boom hased on consumer confidence rather than anything that is going in the manufacturing base. And you don't need a degree in economics to work out that any kind of boom needs to he stabilised rather than undermined with tax cuts.

However the real Budget, whether delivered by a tabloid newspaper or by Clarke, *is a* fantasy. It may not appear very fantastic because it is a fantasy about rationality compelled by its own internal logic which bears little relation to the real world. It is a pretence that fewer and fewer of us actually believe in.

If the Budget has lost its power as theatre, it is because we are tired of the artifice. The Chancellor is fond of saying that "good economics make good politics", but good politics would surely make economics come *alive*. It would make it seem like the whole thing mattered. Instead, we get a hlokish fantasy that offers no surprises. But then what did you expect?

SPENDING

Study by IMF contradicts Chancellor's £7bn PFI claim

David Walker

The Chancellor's claim that the Private Finance Initiative was supplying an extra £7bn worth of public investment contradicted a recent study of the programme by the International Monetary Fund. The fund's study concluded the PFI was contributing no extra money but only substituting for investment that would otherwise be financed by normal methods.

Mr Clarke announced the signing of a new PFI deal involving the Norwich and Norfolk Health Trust, denying that its timing was related to the Budget. Stephen Dorrell, the Secretary of State for Health, said the PFI would contribute £900m in health investment over the next three years. The Home Office yesterday laid claim to PFI projects worth £130m, including a new private-sector prison at Bridgend.

The Government claims that PFI deals will more than make up the shortfall in public investment. Capital spending by government is set to fall by more than 9 per cent this year over last and by a further 10 per cent next year.

The Chancellor's enthusiasm for PFI does not seem to be

shared by officials in his own department. The Treasury has faced long delays in negotiating its own PFI deal through which it will sell its headquarters building in Whitehall to a developer then move back in when it is refurbished.

PFI deals are supposed to be "off the books" but there is increasing anxiety that they commit departments to a long stream of payments to private contractors well into the 21st century.

The Treasury said yesterday that such forward commitments amounted to about £1bn a year until 2005, reducing to about £370m a year by the fourth decade of the next century

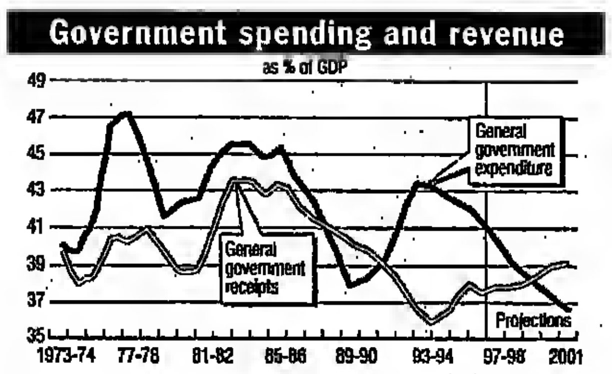
In such key areas as health, Treasury misgivings about future spending commitments have meant that few PFI deals have received final approval and no work has yet begun on a PFI project. No local-authority PFI deals have yet been signed, although talks are taking place about, for example, the building of a new waste-treatment plant in Hampshire.

The Government recently changed the rules to make £50m available as lubrication for council PFI projects. The Treasury's worries about health deals were increased recently when a leading banker said the National Health Service must take back any hospitals built under PFI after 25 years. This would mean private contractors would have to get back their investment more quickly and so push up what they would seek to charge health trusts.

The examples given by Mr Clark yesterday were mostly from the transport sector. But in his announcement of Department of Transport spending plans, Sir George Young, the Secretary of State for Transport, acknowledged that infrastructure projects under the PFI label are only going ahead because government subsidies are available – for example for the Channel Tunnel Rail Link.

Large cuts in capital spending by the universities were insisted on by the Government in the last Budget because, Mr Clark said, PFI deals would replace them. This year he seemed to acknowledge a shortfall in university funding for laboratories, libraries and equipment – a reflection of the fact that few PFI deals in higher education have been negotiated, except for some involving accommodation.

Government spending and revenue



Road protestors at the site of the Newbury bypass: the Chancellor has good news for them in shelving more than 100 projects

ROAD-BUILDING

Greens welcome road-building cuts

Ian Burrell

Sir George Young, the Secretary of State for Transport, became an unlikely hero of the green lobby yesterday with the shelving of more than 100 road-building projects.

But he incurred the wrath of Londoners with a savage cut to the London Transport budget.

The Department of Transport released details of a revised trunk road programme made up of 114 road building schemes and identifying 110 schemes that were being withdrawn.

The news was immediately welcomed by environmentalists. Roger Higman, senior transport campaigner for Friends of the Earth, said: "It is a wonderful announcement. Sir George is recognising that if he has not got the money to build something there is no point in having it in a programme."

Details of the cuts in the road building programme were first disclosed in *The Independent* on Monday. A confidential briefing document written by one of the Government's most senior transport advisers told ministers that that the timescale required for the programme would be "indefensible" unless projects were cut.

The Budget settlement provides for an average spend of £1.5bn a year on roads, meaning that a programme of new construction worth £6bn can be maintained.

London Transport (LT) is to have its budget slashed over the next three years in a financial settlement described yesterday by the new Lord Mayor of London, Alderman Roger Cork, as a "draconian cut".

It is estimated that London Underground alone needs £750m a year to upgrade and improve its facilities.

Sir George announced that LT would receive £650m in 1997-98, £310m in 1998-99 and just £150m in 1999-2000.

The news means that LT will have to cover the £300m overspend on the extension of the Jubilee underground line by making cuts in other projects.

While describing news of the continuation of a £6bn trunk roads programme as a "good outcome" in an "extremely tough spending round", Sir George said he had taken a "pragmatic" approach to many long-term road projects.

Revealing that the schemes would be scrapped because there was insufficient funding to complete them for many years, he said that he was keen to protect communities from the scourge of blight.

Sir George said: "Rather than continuing to maintain schemes which have little chance of coming to fruition within a reasonable timescale, I have decided to remove uncertainty and the damaging effect of blight on individuals and neighbourhoods by withdrawing most of these schemes."

He added: "This is a sensible and realistic course in terms of affordability and I am convinced it is what the public wants."

budget shorts

Cuts looming for legal aid

A significant future cut in legal aid is in prospect under yesterday's projections, which predict the first-ever year-on-year reduction in the scheme's 47-year history.

The figures show total net expenditure on the demand-led service increasing by 6 per cent in 1997/98, to £1.56bn, and by a further 3 per cent in 1998/99, to £1.60bn, but then falling back by 5 per cent in 1999/00 to £1.51bn.

The Lord Chancellor's Department suggested even without legislative changes which would cap the aid budget for the first time, the savings could be achieved by the merits test being applied more strictly, standard (and invariably lower) fees for lawyers and other efficiencies. ***Patricia Wynn Davies***

C4 sell-off recedes

Threats to Channel 4's status as a public broadcaster receded when the Government failed to include potential proceeds of £1bn from privatisation in the Budget. Michael Grade, chief executive, who has campaigned against a sell-of, said: "We are relieved the Government has listened to sensible and pragmatic arguments." ***Mathew Horsman***

Museums under threat

A standstill budget for the performing arts and a cut in grant to some museum brought fears of closures and possible museum admission charges last night.

The British Museum's suffered the biggest cut from £33.2m to £31.9m. Asked about possible staff cuts and a £5 admissions charge, a spokesman said: "The options remain very much open." ***David Lister***

Boost for jails and police

Police and prisons were given a £450m boost underlining the importance of law and order in the election. But most of the 3.7 per cent rise in police funding will be eaten up by inflation, while the £230m jail money is needed to contain the escalating inmate population. As part of the extra funding for the police £40m has been made available for chief constables to recruit 2,000 officers in the coming year.

World Service crisis eased

The Chancellor yesterday moved to fill the £5m funding gap faced by the BBC World Service by settling an annual budget of £152.4m, up from the £147.4m. The move was welcomed by Sam Younger, the managing director of the World Service, who said the settlement recognised the efficiency gains of £6.7m in the coming year already identified by the broadcaster. ***Mathew Horsman***

Beefing up protection

Pressure to protect consumers and attempt to restore international confidence in British beef has meant the Treasury having to find additional funds of £792m. The Secretary of State for Agriculture, Douglas Hogg, claimed that the government, with the increased funding, had now set aside some £3.3bn to "protect the public and restore the market in British beef".

Maff claims that "BSE related measures" have been given additional funding amounting to £730m in the coming year, £580m for 1998/99 and £490m for 1999/00. ***James Cusick***

HOUSING

'Cuts will make more homeless'

Nicholas Schoon
Environment Correspondent

Homelessness and bad housing for people on low incomes are set to increase because of heavy budget cuts, housing experts and Labour claimed yesterday.

About £250m is being cut next year from the funds Government gives to housing associations to build or convert homes for those who cannot afford private sector prices. And £200m is being slashed from grants to local councils to improve run-down council homes.

Labour's housing spokesman Nick Raynsford said: "This is utterly disastrous. It means more people living more of their lives in squalid, sub-standard accommodation."

Mr Raynsford also condemned a change in housing benefit rules which means that any single person under 60 will not qualify for the payments if they live in self-contained accommodation with their own bathroom and kitchen facilities.

"They've already made that a rule for single people under 25," he said. "It means more people forced into houses in multiple occupation, which tend to be more run-down and have higher fire risks."

A recent report on housing by the cross-party Common's environment committee said about 90,000 new, affordable homes a year were needed for low-income households. The Government's estimate is that the need is for 60,000 a year.

But with the latest budget cuts, housing groups and the Housing Corporation were united in saying even the Government's lower target would be seriously undershot.

John Perry, director of policy at the Chartered Institute of Housing, said: "The Government says it is making a priority of increasing spending on health, education and preventing crime. But grotty, deteriorating housing contributes to problems in all those areas."

John Gummer, Secretary of State for the Environment, anouced a £70m package aimed at encouraging more councils to sell council flats and houses to private-sector landlords. Some 230,000 rented homes have been transferred in England, around six per cent of the total.

THE HEALTH SERVICE

Doctors get a welcome cash transfusion

Glenda Cooper

Doctors got the "healthy Budget" that they had demanded from the Chancellor yesterday as nearly a billion pounds of new money was given for patient services.

The British Medical Association and the National Association of Health Authorities and Trusts had earlier warned that without an increase of 3 per cent on top of inflation, hospitals would be plunged into crisis this winter.

The Chancellor announced yesterday that spending on patient services was to increase by £1.6bn or 2.9 per cent in real terms, and the crucial area of hospital spending was to be 3 per cent.

Of the total, £800m will be new money for the NHS over and above that needed to cope with inflation, projected to run at 2 per cent. This is £3m more than what was expected.

Dr Sandy Macara, chairman of the BMA Council, said it was "a tremendous success for the BMA's autumn lobbying on the financial crisis facing our hospitals", but warned that it would not avert this winter's crisis unless there was some other cash injection to get health authorities out of their current deficit.

The Secretary of State for Health, Stephen Dorrell, had fought hard against public spending cuts after a series of meetings at Downing Street earlier this month.

He said that alongside the extra cash the Government would again be setting a demanding efficiency target for the NHS of 2.7 per cent. The efficiency gains were expected to be worth about £525m over and above the new funding from the taxpayer.

Naming the NHS as one of the three public services that people "really care about", Kenneth Clarke told the House of Commons: "The NHS has been safe in our hands, it is safe in our hands and it will always be safe in our hands."

"We are totally committed to the National Health Service as a public service providing high quality up-to-date treatment, free at the point of delivery."

Marco Cereste, chairman of the NHS Trust Federation, said that the Chancellor's action was "welcome".

"The Government's commitment to this extra £1.6bn will help trusts avert unnecessary financial crises in future years. This is positive news for the NHS and will be met with a sigh of relief in trusts up and down the country."

But Labour claimed that actual spending for the Department of Health would actually fall by 0.7 per cent: "Even in health, there is absolute classic 'take with one hand, give with the other'."

Mr Blair said the Government always promised more for health and education. "But look at the facts of what is happening in the NHS," he said.

"Waiting lists rising again, 36 trusts in deficit, 20,000 more managers and 50,000 fewer nurses."

And the Royal College of Nursing said that the new money had to be properly targeted if the NHS was to avoid a grim winter.

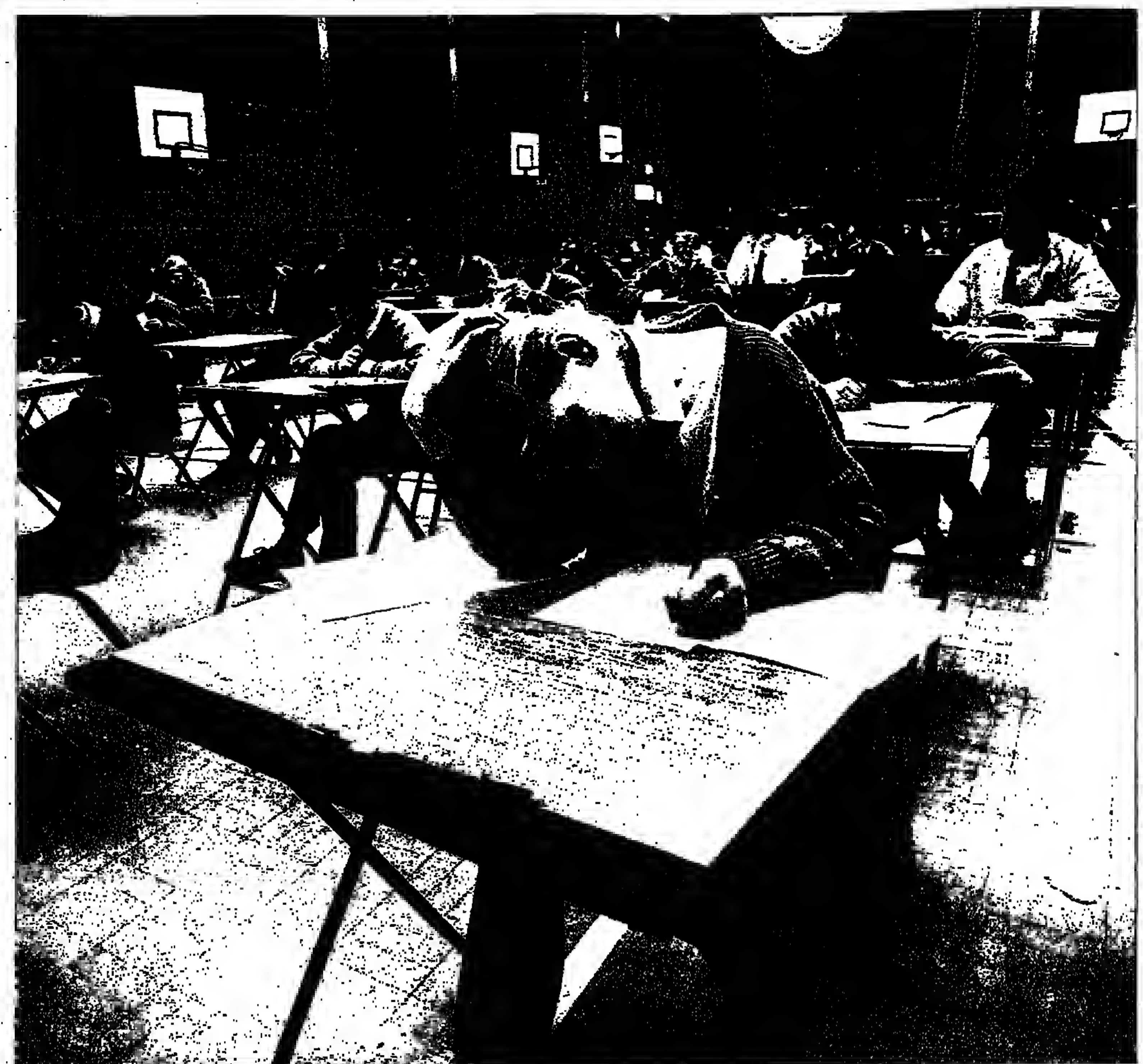
"Many trusts face operating with a vacancy rate for registered nurses of up to 20 per cent," said Tom Bulger, assistant general secretary.

"The Government urgently needs to address the chronic shortage of nurses if patient care is not to suffer."

The Private Finance Initiative investment in the NHS will also reach some £900m over the next three years on top of increased public spending. The PFI contract for the Norfolk and Norwich hospital scheme, worth close to £200m, was signed yesterday, and others will follow, the Chancellor said.

Health organisations also welcomed the increase in duty on cigarettes and "alcopops".

A spokeswoman for the Royal College of Physicians said: "We welcome what we see as a healthy Budget for young people by helping to keep tobacco and alcohol out of the financial reach of children."



A less generous settlement than last year means that, despite an extra £633 million, class sizes seem destined to rise

New spending plans

£ million	
[illegible]	[illegible]
Agriculture, Fisheries and Food	[illegible]
-excluding BSE	[illegible]
-expenditure due to BSE	[illegible]
[illegible]	[illegible]
DOE-other	[illegible]
[illegible]	[illegible]
Education and [illegible]	[illegible]
[illegible]	[illegible]
Social [illegible]	[illegible]
Local [illegible]	[illegible]
Other departments	[illegible]
[illegible]	[illegible]
Control total	[illegible]
[illegible]	[illegible]
Central govt. debt [illegible]	[illegible]
[illegible]	[illegible]
[illegible]	[illegible]
expenditure	[illegible]
[illegible]	[illegible]
Other adjustments	[illegible]
[illegible]	[illegible]
-% of GDP	[illegible]

SCHOOLS' SETTLEMENT

Cash can't slow growth in class sizes

Judith Judd and Fran Abrams

Local authorities predicted last night that class sizes would rise again this year after a schools settlement that is less generous than last year's.

Schools will be allowed an extra £633m, channelled through local authorities, compared to an extra £770m last year when Gillian Shephard, Secretary of State for Education, gave in to pressure against cuts from parents and teachers.

Mrs Shephard said she had secured priority for education in the public spending round. "So long as pay settlements are at affordable level our schools will be able to fund the increase in pupils numbers and other pressures which they will face next year," she said.

But local authorities said that last year's schools' budget amounted to a standstill and the failure to match it this year meant that there would not be enough money to keep pace with inflation and rising pupil numbers. Though large-scale teachers redundancies might be avoided, class sizes would continue to rise.

The extra £50m for building will make little difference to an estimated £3.2bn renovation bill.

Schools will have to bid for £60m for school security in a scheme which will require local authorities to contribute £4 for every £6 of government grant.

Ministers have cut £56m from the money promised for the nursery-voucher scheme after pilot schemes showed that it was unlikely that there would be 100 per cent take-up.

Universities, which threatened to start charging tuition fees unless last year's big cuts were reversed, fared better. They will get an extra £100m in each of the next two years but face cuts at the turn of the century.

David Blunkett, shadow education secretary, said: "The Tories are betraying Britain's toddlers and their parents. The £56m cut in extra money promised at every opportunity for nursery education means that they are clearly refusing to guarantee places for all four-year-olds."

Doug McAvoy, general secretary of the National Union of Teachers, said: "In front of a general election, the Government offers a sticking plaster which will not cover the cut nor fool parents. Its so-called protection of education is too little, too late."

The real effect of the schools' settlement will be revealed today when details of council budgets are announced.

Mrs Shephard said it would be for councils to decide how to allocate the available funding but parents would expect them to give priority to schools.

David Whitbread of the Association of County Councils said: "This Budget means belt-tightening. For schools to have a similar experience this year as last we need the same amount of money." Graham Lane of the Association of Metropolitan Authorities said ministers had performed "a conjurer's trick". More money for education should come out of income tax and not out of council tax bills.

Professor Gareth Roberts, chairman of the committee of vice-chancellors and principals, welcomed the recognition of the crisis in higher education. The new money would help to tide universities over until Sir Ron Dearing's review reported.

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CORPORATION TAX

1,000 'ghostbusters' to hunt tax dodgers

Crackdown on big business avoidance aims to take an extra £2bn

Roger Trapp

An army of 1,000 "ghostbusters" is to be deployed against big business and international companies as part of a bid to gain an extra £2bn in tax over the next three years.

The Government's crackdown on tax avoidance – in a package of measures under the slogan "Spend to Save" – was aimed, said Mr Clarke, at those companies that were "economical with their tax". It confirms reports that the Inland Revenue is increasingly examining the tax arrangements of large companies.

The Treasury said that the action would build on what had already been done by the Revenue and Customs and Excise, which is responsible for collection of value-added tax. The stepping up of their compliance activities would coincide with extra efforts against benefit fraud by the Department of Social Security.

The departments will spend £800m over the next three years in order to gain the savings estimated at £6.7bn. The annual cost of the new anti-fraud and tax avoidance measures will rise from £200m in 1997-98 to more than £300m in 1999-2000. Estimated savings will rise from £900m next year to £3.3bn by the third year.

The extra revenue manpower will result from the redeployment of staff on to collection and inquiry work as a result of the introduction of self-assessment.

> Companies that are 'economical with their tax' are the target

Among the specific measures announced for the Revenue are:

- The ability to undertake additional corporate tax inquiries and investigations into international transactions
- The speeding up of the settlement of outstanding tax liabilities
- Further action to counter the shadow economy

The moves were welcomed by Michael Rogerson of accountants Grant Thornton as creating "a level playing field for small and medium-sized enterprises". Such companies had not benefited from the schemes devised by tax specialists for larger companies, he said.

However, Richard Collier-Keywood of accountants Coopers & Lybrand said: "It is important that any additional Inland Revenue scrutiny of businesses is not a collection of fishing trips which only serve to increase the compliance burden on businesses, deflecting them from their core activity. This will probably require significant retraining of the Revenue's redeployed resources."

Ian Barlow, head of tax at KPMG, added that the 190 companies who pay 85 per cent of the total corporation tax take would be hit by so many extra inspectors looking into their affairs. He doubted that the actions would recover anything like the sums predicted by the Chancellor.

The attack on abuses of the system is part of a trend and follows growing concern about falling revenues – even though Conservative ministers have traditionally argued that lower rates of tax encourage greater compliance with the law and make tax planning less worthwhile.

The establishment more than two years ago of the Large Groups Office is helping different branches of the Revenue to co-ordinate their approach. But tax advisers also talk of more aggressive tactics by inspectors, who are increasingly being promoted on the strength of their success in investigations.

Shortly before last year's Budget, the Inland Revenue published a consultation document that looked at requiring UK-domiciled companies to demonstrate that transactions have been made for "business purposes" rather than simply to avoid paying tax. Such a move, if implemented, would bring Britain into line with other countries, such as Canada, that have increased their tax take, clamping down on avoidance through rigorous application of such a test.

Last year, *The Independent* revealed the extensive use of tax avoidance tactics by companies such as News International, Rupert Murdoch's UK-based publisher of national newspapers.

Pointing out that he wanted to keep tax cuts under his control, Mr Clarke said he aimed to "make sure we get the right tax from the right people".

The clampdown also extends to VAT, where – in addition to confirming the imposition of a three-year limit on refund claims – there will be greater efforts to tighten up on reliefs and on schemes used by retailers. However, the Government's hopes of raising an extra £750m a year were questioned by tax experts, who say that repeated shortfalls in receipts probably have more to do with the department's modelling than with widespread avoidance.

> The attack on abuses follows concern about falling revenues

The Chancellor also said that employers' National Insurance contributions would be cut by 0.2 per cent to 10 per cent and that, while the employees' rates and the lower rates for employers would remain unchanged, the lower and upper earnings limits would be indexed.

He also confirmed plans to impose a three-year limit on VAT refund claims. The move followed a series of legal battles between Customs and such companies as mail-order groups GUS Home Shopping and Kay & Co and drinks group Allied Domecq over the decision in July to seek to reduce the Exchequer's exposure to large potential reductions in revenue by preventing companies claiming refunds of overpaid tax back to when it was introduced in 1973.

However, Mr Clarke sought to head off criticism by announcing that Customs would only be able to pursue claims for three years instead of the current six years.

SMALL BUSINESSES

Rates cheer for small firms

Jill Treanor
Banking Correspondent

Small businesses gave the moves to assist them announced in the Budget a cautious welcome, but criticised the Chancellor for not going far enough. They also warned that the phased abolition of profit-related pay (PRP) could increase their payroll costs.

The Budget announced four main benefits for small firms, the main one being the reduction in the rate of corporation tax paid by 400,000 small business from 24 p to 23 p, in line with the cut in the basic rate of income tax paid by three million self employed people.

Mr Clarke froze the rates bills for small properties, claiming this would benefit 1.3 million small business properties in 1997/8. He also increased the registration threshold for value added tax (VAT) from £47,000 to £48,000.

The budget introduced relaxations in the rules covering venture captial trusts (VCT) and enterprise investment schemes (EIS) which are used by small businesses and the self-employed.

But small companies expected to be hit by the hike in insurance premium tax to 4.0 per cent and lamented the lack of measures to encourage investment in plant and equipment.

Small businesses had hoped to see the rate of tax relief on investment in EIS cut to 20 per cent from its current level of 40 per cent and would have welcomed more progress on scaling back inheritance and capital gains tax.

> 'I give it a very cautious welcome but there's very little there'

Tony Bonner, chairman of the Confederation of British Industry's small and medium sized enterprise council, said: "We welcome the reduction in the rate of corporation tax for smaller firms, the decision to equalise the time limits on the recovery of VAT and the benefits to small businesses of the reductions in the uniform business rate."

But Mr Bonner added "The progressive abolition of profit related pay does not augur well for future payroll costs."

Simon Rees, senior partner at Rees Pollock, a London-based accountancy firm which specialises in small businesses, also warned of possible higher salary bills.

"There has to be some concern about the phased abolition of PRP. It's unlikely employees would accept a fall in take-home pay," said Mr Rees. "The PRP changes could hit small businesses quite badly over time."

He estimated a quarter of his small business clients used PRP, which Mr Clarke said would be phased out in three stages by 2000.

John Emmins, vice chairman of the Federation of Small Business which has 93,000 members across the country, said the budget had done nothing to deter late payment of bills, estimated to cost £20bn.. "I give it a cautious welcome but there's very little there. It hasn't done us too much damage."

BUSINESS REACTION

Businesses divided over the cost of tax cuts

Chris Godsmark
Business Correspondent

Leading business groups were divided about whether the Chancellor had preserved the "careful balance" of his tax policy to avoid "damaging" rises in interest rates to meet his inflation target.

The Confederation of British Industry, which had warned that the Chancellor's scope for tax cuts was "close to zero", said the 1p cut in the basic rate was "acceptable," though it was concerned about the number of other tax changes which would add to companies' costs.

The CBI, headed by Adair Turner, said: "We need to look closely at the details of planned reductions in public spending, in particular the balance between real sustainable reductions and one-off measures."

David Richardson, president of the British Chambers of Commerce, was scathing about the 1p cut in income tax which he said "would do nothing for business and investment".

He continued: "Only time will be the best test of the inflationary consequences of this one penny cut. The worry for business is that while the cut is affordable to the Exchequer, it may not be affordable to business if interest rates have to rise."

He also claimed the abolition of profit-related pay could hit inflation because firms would have to raise pay to compensate.

However, Sir David Simon, chairman of the BP oil group, was more confident the Government had not taken undue risks with interest rates. He said: "The Chancellor's move to tighten fiscal policy should reduce the risk of further pressure on monetary policy and keep the economy stable and predictable. I particularly welcome that we are on track to meet the Maastricht criteria."

His comments were backed by the British Retail Consortium, which described the Budget as "well-judged". Andrew Higginson, the BRC chairman, said the modest tax cut "should help maintain the current momentum in retail sales which is being achieved without price inflation".

Sir Ronald Hampel, chairman of ICI, also endorsed the Chancellor's strategy. "The cuts in public expenditure and small increase in revenues should enable the economy to continue to expand without giving rise to undue risks of inflation. The fiscal balance should also help keep interest rates low," he said.

The housing industry was split on the impact of the Budget. Joe Dywer, chairman and chief executive of housebuilders George Wimpey, was pleased that Mr Clarke had gone for only limited giveaways. He said: "The modest tax cuts along with continued low inflation, economic growth at current levels may strengthen the 'feel-good factor' which is so important to our business and accelerate the speed of the housing market recovery."

However, the Royal Institute of Chartered Surveyors thought the housing market would get little help from the tax cut, which is claimed would be offset by expected interest rate increases in the longer term and the loss of profit related pay. In addition, the Building Employers Confederation (BEC) was concerned about the cuts in capital spending programmes, including the big reductions in roads programmes which is feared would not be compensated for by the Private Finance Initiative. However, the BEC did welcome the extra £50m of funding for improving school buildings, the crackdown on VAT evasion and the measures to reduce the business rates.

The Institute of Export welcomed the Chancellor's glowing praise for British exporters, but attacked the 100 per cent jump in the tax on air fares.

Water off a duck's back: Graham Hallewell is unmoved by Kenneth Clarke's cautious Budget Photograph: Howard Barlow

Entrepreneur laments lack of incentives

Chris Godsmark
Business Correspondent

Graham Hallewell began his fabric-coating business in Manchester in 1979, just as Margaret Thatcher was putting together her first administration.

After seventeen years of Conservative budgets Mr Hallewell was as underwhelmed as ever by Kenneth Clarke's latest performance. He said: "I just don't see anything there which gives incentives to small firms. I welcome lower personal taxes but in terms of my business there are plenty of extra costs and nothing to offset against them."

Mr Hallewell, 51, created Coverplus after spotting a market for waterproof, breathable, outdoor clothing. He developed a process which coats fabrics bought in from outside suppliers, mostly from the UK.

In the last five years, sales growth has been dramatic as the company won contracts to supply waterproof jackets to the Post Office, British Telecom and the Metropolitan Police. But increasingly Coverplus has looked to exports, which now account for 60 per cent of sales.

He was also disappointed by the absence of any mention in the Chancellor's speech of the strong pound. "He didn't mention Sterling. We are working against a very strong pound and we are finding it very difficult when there is so little help for exporters."

Business, in his words, is "excellent" at present, but the biggest concern is that interest rates will have to rise to curb inflation, further boosting the already strong value of Sterling. Given this scenario the tax cuts announced yesterday, though modest, were were not what Coverplus needed.

He had hoped for at least a neutral budget with no tax giveaways to help keep interest rates down. Though Mr Clarke insisted he would not risk his cautious monetary stance, Mr Hallewell was not convinced.

He explained: "I can still see after the budget that there will be more rises in interest rates. I want to see rates coming down, not going up. The penny off income tax is a vote-catcher and I don't see it helping that situation."

Coverplus's export drive has meant Mr Hallewell making frequent trips abroad and he has been appalled at the high cost of European air fares. His return ticket to Eindhoven in The Netherlands costs £418, so the doubling of the tax on air travel hit a raw nerve: "This really gets to me. It won't break the bank, but we have a Government talking about export drives and then putting a tax on exporting."

Another direct increase in his costs will come from the 3p a litre rise in fuel costs. Coverplus spends £40,000 a year on petrol for business travel. He predicts delivery charges for goods will also rise.

This is not to say that Mr Hallewell, who describes himself as "totally non-political," expects any better from a Labour Government: "Manufacturing has been decimated in the North West but I just don't see politicians of either party helping. It's all promises, but when do they ever put them into practice?"

VERDICT OF THE WISE MEN AND WOMEN

Treasury advisers disagree over need for rate rise

John Willcock

Pundits' roll call (from left): Bridget Rosewell, Gavyn Davies, Martin Weale, Kate Barker, Tim Congdon and Roger Bootle

The Government's panel of "wise persons" disagreed sharply last night in their reactions to the Budget. Two thought the Chancellor would immediately be forced to raise interest rates, while a third thought rates should be "cut sharply".

Martin Weale, National Institute for Economic and Social Research, said the Budget was "disappointing. It doesn't put the public finances on a sound basis".

"There hasn't been a genuine fiscal tightening. Mr Clarke could have taken the revenue from the profit-related pay straight into the Budget, instead of putting it off until 1998.

"The PSBR at £19bn is still too high to be sustainable. The total fiscal tightening is only by half a billion pounds. The Chancellor needs to raise interest rates by quarter of 1 per cent sooner rather than later."

Gavyn Davies, chief economist at Goldman Sachs and an unofficial adviser to Labour, said the PSBR was still far too high.

"Given the way the economy is behaving, the PSBR in 1996/7 should have been much lower than £26bn....

"The economy is now embarking on a powerful and dangerous consumer-led boom, much as it did in 1987/88."

Professor Patrick Minford of Liverpool University, who is due to stand aside as a wise person, was as usual on his own in calling for an immediate "sharp cut in interest rates".

While Mr Clarke did "the maximum that the consensus permitted" with "desirable moves to greater neutrality on taxes", Professor Minford complained there was a "cloud overhanging the Budget".

"The green light given to sterling by interest rate policy is a serious danger. To extinguish it Mr Clarke should cut interest rates temporarily, but possibly sharply, as a warning to sterling buyers."

Roger Bootle, chief economist with HSBC, whose slogan in recent years has been "inflation is dead", described the Budget as "prudent but dull." "The big issue is whether it is prudent enough to prevent the Governor of the Bank of England from pressing for another interest rate rise. Mr Clarke's inflation forecast of 3 per cent by the end of the year clearly shows he is optimistic he can get away without another rate rise.

"With a following wind the inflation rate might just get there, but this runs against prevailing pessimism and recent figures."

Kate Barker of the CBI said: "The PSBR number is satisfactory, but it is disappointing that personal tax cuts were funded by raising business costs and not cuts in public spending."

"The balance of the package is tight enough to make another interest rate rise unnecessary. But the Budget does add a little to inflationary pressures because it boosts the private sector."

Bridgette Rosewell of Business Strategies said the Budget was "boring – but the right thing to do".

"The Chancellor can leave interest rates right where they are. His Bodget was certainly prudent and cautious, the fiscal tightening was okay."

Tim Congdon of Lombard Street Research was unavailable for comment.

Oh, for a good old-fashioned 1980s-style Budget

JEREMY WARNER

'Where were the deep cuts in welfare and other spending to finance big tax cuts? Where was the radical agenda, the Budget that demonstrates there's an idea or two in the old Cabinet yet?'

Hey presto... and, er... is that it? Where's the trick? No rabbit, no puff of smoke, nothing very remarkable at all. A reasonably populist set of measures which steals a few of Labour's clothes, if not quite its underpants, but in most respects a thoroughly predictable Budget of the type we have come to expect from Kenneth Clarke – so lacking in spice, in fact, that the only real story to emerge from the most serious Budget leak of the century was the leak itself.

The financial markets will thank the Chancellor for that; whether the electorate does is another matter. This was a Budget *designed to* appeal more to our virtue than our pockets, more, in truth, to the markets and their love of financial probity than the ballot box, a Budget that will sorely test the Chancellor's contention that good economics is also good politics. As likely as not, he'll be slaughtered in the Tory press for it. Where were the deep cuts in welfare and other spending to finance big tax cuts? Where was the radical agenda, the Budget that demonstrates there's an idea or two in the old Cabinet yet?

Oh for the 1980s when Budgets were fun and filled with the spirit of adventure. At least, however, Mr Clarke has been as good as his word and for that we should be grateful. We have here a Budget the public finances can afford, not the massive pre-election give-away urged on the Chancellor by some of his more hysterically minded back benchers. And let's not be churlish about this either. There are some good, solid and thoroughly worthwhile measures here. The "spend to save" package is so obviously called for, in both the tax and benefits system, that it is a wonder more has not been done on this front before.

The caveat here, of course, is that the returns talked of by Mr Clarke and now built into the public finance forecasts are a lot less certain than most. Indeed, they may be little more than wishful thinking. All the same, a crackdown on corporate tax avoidance, assuming that the tax lawyers and accountants can in practice be reined in, is self evidently preferable to a general increase in corporation tax, while nobody can argue with further reducing the tax burden on small to medium-sized companies.

Organised tax avoidance has become a cancer on the nation, distorting markets, giving unfair advantage to those who practice *it*, and forcing those of us in the corporate and personal sectors who do abide by the spirit of the rules to pay more. To practice tax avoidance in the name of "tax efficiency", as many do, is merely to give a respectable name to what is fundamentally a dishonest and corrupt endeavour. So here's a measure likely to appeal to all, other than those who routinely fail to pay their dues. It's a bit like the pleasure we all get from seeing a Rolls Royce wheel clamped. Serves the so and so right, most of us think, even though we'd hate to have the same thing done to us.

But the real cleverness in this Budget is in the fact that Mr Clarke has managed to combine three apparently irreconcilable things – a reduction in income tax, a reduction in key public borrowing forecasts, and *increased spending on the* vote-catching areas of law and order, health and education.

He's also largely managed to avoid the obvious temptation of robbing Peter to pay Paul – clobbering the corporate sector to find pre-election tax cuts for the masses. As for the phasing out of profit-related pay, well, that's going to hit *highly* paid Tory voters hardest, but who cares? They are hardly likely to turn round and vote for Mr Blair. They'll lose a perk, but they can be sure it will be worse under Labour. Profit-related pay has grown like topsy in recent years and it is a tax break which has, in any case, been widely abused.

On the public finances, too, the Chancellor appears to be steering as good a course through the reefs as could reasonably be expected. Recent Budgets have had to be set against the backdrop of repeated upward revisions in the borrowing requirement, with the medium-term goal of a balanced Budget being constantly set back each year like a receding horizon.

Last summer's economic forecasts moved the borrowing target for this year up by £5bn and next year by £8bn. For a change, the numbers now seem to be moving in the Chancellor's direction. The forecasts of borrowing are still higher than they were in the Budget last year, and again the prospect of a balanced budget is put back, this time into the next millennium (not much sign of progress there), *but even so the figures are now* looking much better than in the summer forecast. This actually has very little to do with spending cuts, or any kind of structural reform in the public finances. The main drive comes from growth in the economy, which naturally increases the size of the tax take. In the past the Treasury has hopelessly overestimated the effect of economic growth on taxes, which in part explains why it has got the borrowing forecasts so wrong. It now seems to be the case, however, that the tax shortfalls are beginning to be made good. As the Chancellor was keen to stress, there is still a long way to go on this front, but things are looking better.

Furthermore, the tax take is due to rise in any case as a result of previously announced measures now coming through. Without delving into the detailed departmental spending budgets, it is hard to know what jiggery pokery there's been to make the *figures* work on the spending side of the balance sheet (more on that tomorrow). All we can be certain of is there is bound to have been some. As always, the main cut in spending is achieved not through real cost cutting, but through the time-honoured wheeze of cutting back on the reserve for unexpected spending (so no much progress there either).

All the same, it can readily be seen that Mr Clarke had quite a lot of elbow room. In the end, he resisted the temptation to *squander it, or even significantly* capitalise on it. The overall effect of the Budget is a slight fiscal tightening.

We are thus left with a Budget which is as economically sound as you are ever likely to get just ahead of a general election. The Chancellor has stolen or mirrored some of *Labour's least contentious ideas, but he* has stopped short of radical tax reform. He's also adopted the policy most likely to benefit business and the economy.

Big tax cuts would inevitably have increased the economy's reliance on consumer spending, caused higher interest rates and reinforced the pound's strength in foreign exchange markets. Mr Clarke has chosen the alternative route, trusting in the underlying strength of the economy to deliver him the votes he needs to get most of these measures onto the statute books.

More can always be done, but on the whole this is a good Budget for business. A good Budget for Mr Clarke? What tax cutting there's been is carefully targeted at middle income to relatively well off. But is it enough?

CITY REACTION

Lukewarm reaction from City as shares in retail groups drop

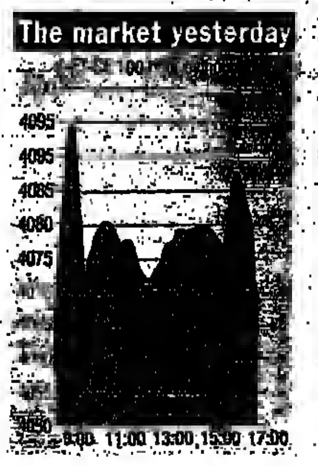
Tom Stevenson
City Editor

The City gave a lukewarm welcome to Ken Clarke's last budget before the General Election, confirming the stock market adage that it is better to travel than to arrive. Shares, which had risen by more than 100 points in the past three trading days in anticipation of a fiscally prudent budget, closed well off the all-time high they reached before the Chancellor got to his feet.

Having briefly touched 4,094.4 after the market opened yesterday morning, breaking through the previous all-time high of 4,073.1 achieved last month, the FTSE 100 index of leading shares closed only 13.8 points higher at 4,068.4.

The fall during the Chancellor's relatively neutral speech reflected potentially bad news for retailers and insurance companies in the measures he announced, a weak showing from Wall Street and the realisation that interest rates are still headed upwards.

The market yesterday



Dealers said they expected little change or, at worst, a small fall in the market this morning, but they cautioned that the US market remained a greater influence than the measures in a budget that was widely predicted even before yesterday's leaks to the press.

Retail groups were some of the hardest hit from a combination of planned moves to plug loopholes avoiding VAT on goods bought with insurance policies. Dixons dropped 20p to 550p while Woolworths-to-Comet group Kingfisher lost 14p to 624p.

Most brewers were ahead on the news that beer duty is to be frozen. Whitbread added 4p to 755p, and Wolverhampton & Dudley Breweries went 1p higher to 667p, while Greene King jumped 3p to 666p.

Guinness, one of the UK's biggest spirits producers, gained 2p to 458p after Mr Clarke reduced duty on spirits by 26p a bottle, but Bass dipped 4p to 810p *on plans to increase tax on* alcopops by between 7p and 8p a bottle.

Bob Semple, equity strategist at NatWest Securities, said: "There was nothing there that people weren't expecting. He has been a good boy and the overall budget stance was steady as she goes."

He warned, however, that with consumer spending, by the Chancellor's own admission, *continuing to motor*, Eddie George, the Governor of the Bank of England, would keep pressing for an interest rate rise before the next election.

The next meeting between the Chancellor and Mr George is scheduled for 11 December and the markets continue to predict a small rise in interest rates by the end of the year. December short sterling, a commonly used measure of the market's expec*tations for interest rates*, closed slightly higher at 93.58, implying a yield of 6.42, above the current 6 per cent base rate.

Despite the inevitability of higher interest rates eventually, the gilt market warmed to the reduction in the Chancellor's forecast for the Government's deficit, even if some analysts questioned the achievability of the sort of performance he expected. Mr Clarke predicted a fall in *the public* sector borrowing requirement next year to under £20bn, at the low end of expectations.

Lower government deficits are good for gilts because they take the pressure off the government to issue more bonds to make up the financing shortfall. That enhances the value of bonds in circulation.

Most analysts felt that the tax measures announced yesterday, while prudent and cautious, were small beer compared to the giant stimulus to the economy that almost £20bn of windfall gains from the flotation of various building societies will create. That money is likely to be a big factor in the 4 per cent consumer spending growth that the Chancellor forecast and will fuel the Bank of England's argument that interest rates should rise.

Richard Kersley, equity strategist at BZW, said that in the short term, the Chancellor's relatively bullish forecast for inflation made the chance of an early interest rate rise less likely, but he pointed to a couple of worrying issues for particular sectors of the market.

Mr Clarke's determination to clamp down on tax loopholes would mean the market looked more closely at companies with low effective tax rates. Sectors thought most likely to suffer from that sort of scrutiny include retailers and hoteliers.

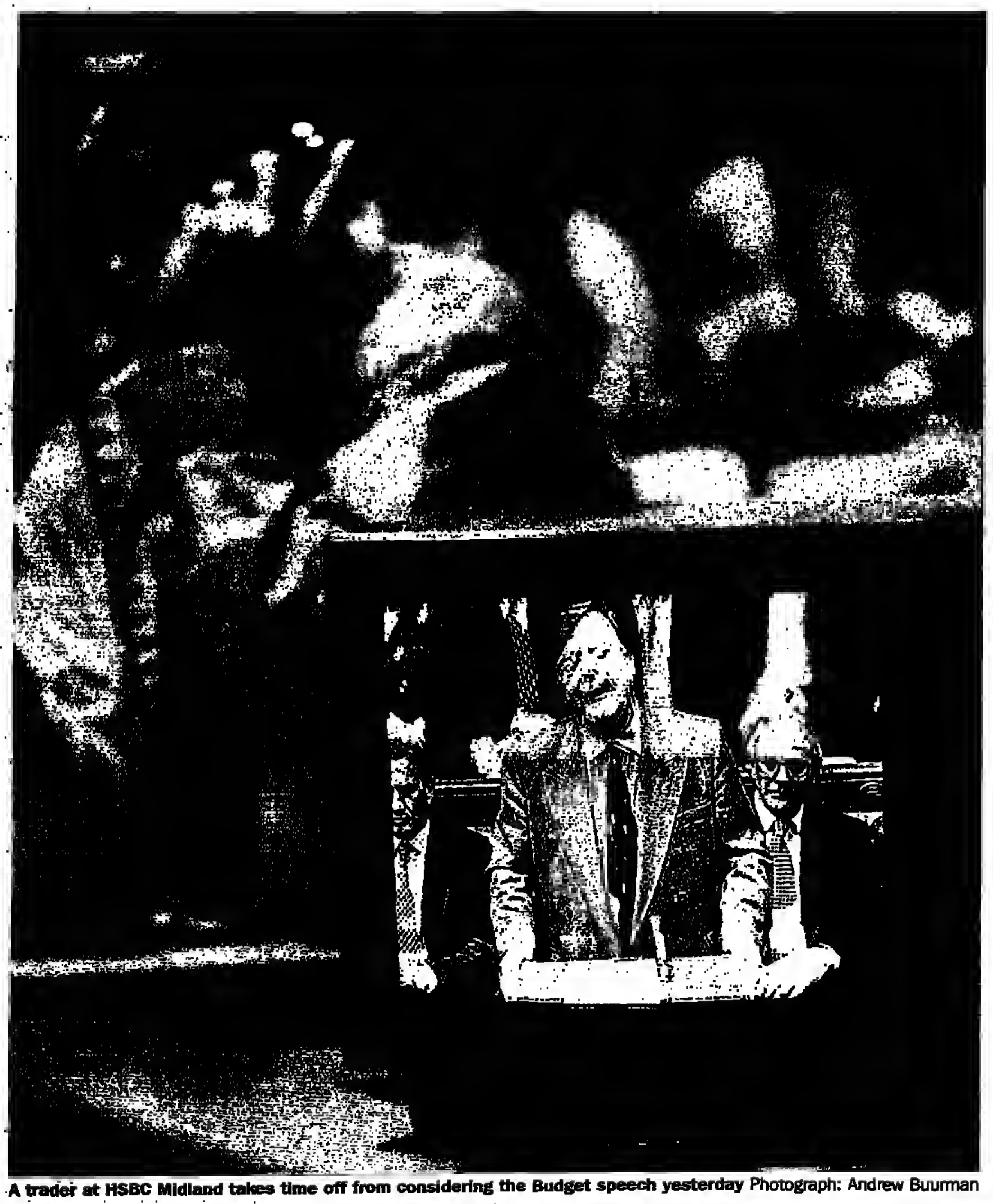
Secondly, according to Mr Kersley, many of the tax rises announced were focused on service sector companies – higher insurance premium tax, a rise in the airport tax and changes to VAT. Alterations to capital allowances for assets with long lives might also hit utilities and perhaps BA's aircraft fleet.

Sterling hovered below its 32-month high against the mark after the Chancellor's speech. According to Klaus Baader, currency strategist at *Deutsche* Morgan Grenfell: "This was a neutral to tight budget. It will reduce the very aggressive expectations about the course of monetary policy that has been driving sterling's rise."

The pound rose as high as DM2.5589, its highest level since March 1994, but then lost some of its gains. Against the dollar, the pound traded at $1.6739 against a high of $1.6760.

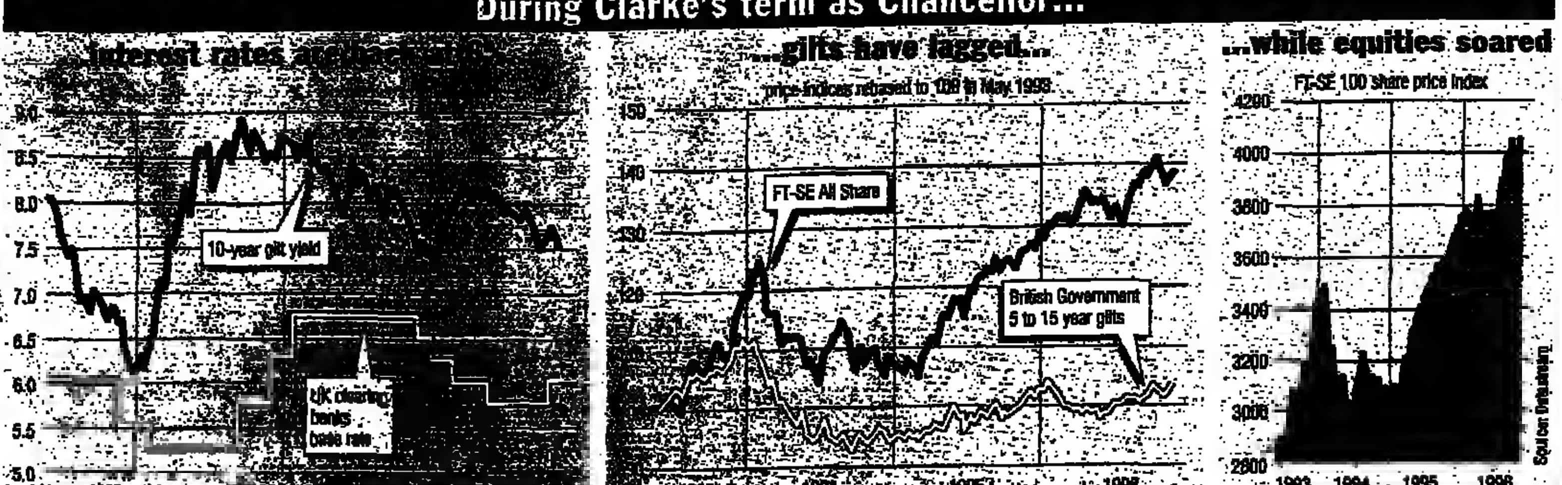
The pound has risen about 10 per cent against the mark in the *past three months and about* 8 per cent against the dollar, amid optimism that robust UK economic growth would continue, leading to further interest rate rises by the year end.

"Sterling won't make more headway, and will gradually begin to fade," said Mr Baader. "The budget is not so tight that interest-rate expectations will have to be shelved, but they will have to be cut back."



A trader at HSBC Midland takes time off from considering the Budget speech yesterday Photograph: Andrew Buurman

During Clarke's term as Chancellor...



SPREAD BETTING

Leak sinks the spread betting enthusiasts

Tom Stevenson
City Editor

The spread betting industry suffered its biggest loss on the Budget before the Chancellor, Kenneth Clarke, had even got to his feet yesterday. The leaking of many of the proposed measures to the *Daily Mirror* meant City Index, the specialist in financial markets gambling, had to close the book on all its excise duty bets.

No new wagers were accepted on the expected tax changes on cigarettes, petrol and scotch, taking the edge off one of the busiest days for the industry. Bets remained open on the length of the Chancellor's speech, as they did at Sporting Index, City's rival and the leading firm in sports spread betting.

The most popular gamble, that Ken Clarke would enjoy his final speech before the election paid off, but only just. At the end of last week it was possible to place a bet that would pay out if the Chancellor spoke for more than 74 minutes so the 75 minutes he spent on his feet meant the professionals were a few hundred pounds out of pocket on that bet.

The biggest bet of all at City Index – £1,000 per minute on the length of the speech – ended up as the wager that wasn't. A regular client with City took this big punt but, having bought bang on the nose at 75 minutes, he and the firm ended up all square.

Spread betting, one of the fastest growing areas of the £24bn UK gaming industry, will hold no mystery for anyone who has ever bought and sold shares. The spread betting firm, usually City Index or Sporting Index but increasingly the high street bookies as well, acts as market-maker, posting offer and bid prices on a range of bets with the difference between the two representing its jobber's turn.

Those bets are pretty much unlimited in scope. You can bet on the level of the FTSE 100 index next week, the outcome of the FA Cup final or the number of shots in Nick Faldo's next round. You might place a bet on the number of seats the Tories will win at the next election – if there is doubt about a numerical outcome in any field of human endeavour someone can and will offer you a spread.

As in the equity market, if you believe the market-maker has undervalued an event you will buy at the higher offer price and name your stake for each unit of difference between the price at which you buy and the actual outcome. If you think he has overpriced his book you will sell at the lower bid price.

To square his book the market-maker reacts to the inflow of buy and sell orders by raising or lowering the price he quotes. The weight of buying orders on the length of Mr Clarke's speech meant the spread rose in the run-up to the Budget from a mid-price 73 minutes last week to 80 minutes on the day.

The system works best when, as with shares, there is at least the potential for a wide range of outcomes. In a cricket match, for example, a team could be bowled out for well under 100 or make in excess of 500 runs. If a punter buys England's first innings at a spread of 300-310, and the team makes 500, he will win 190 times his stake. If the team is skittled out for 150, however, he will have lost 160 times his stake.

For the betting addict, spread betting has the added attraction that the gambler's high lasts throughout the game. At the races, your jockey falling ends your interest in the race, but the gain or loss from a bet on the length of Mr Clarke's speech changed every minute he remained on his feet.

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WINNERS AND LOSERS

How the budget affects your pocket

Dual income family

	1996-97 £pa	1997-98 £pa	Change £pa
Income	50,000	50,000	0
Company car & fuel benefit	5,557	5,677	120
Child benefit	1,019	1,043	23
Income tax	10,318	9,709	609
Value of MCA	(269)	(275)	(6)
Tax relief on his £3,000 pension	(1,200)	(1,200)	0
National Insurance	3,659	3,702	43
Mortgage repayments	5,278	5,278	0
Domestic fuel bills	864	864	0
Net income after mortgage, pension & fuel bills	31,169	27,192	596
Duty: wine	780	780	0
Spirits	180	177	3
Gain/(loss)			£599

Assumptions:
Dual income family + two children.
He earns £32,000, she earns £18,000.
Company car costing £20,000; 2,000cc; 5,000 business miles pa; fuel provided by employer.
Mortgage £90,000; interest rate 6.99%; repayment.
Drinks wine; 3 bottles/week at £5 per bottle and spirits; 1 bottle/month at £15 per bottle.

High income family

	1996-97 £pa	1997-98 £pa	Change £pa
Income	85,000	85,000	0
Income tax	28,258	27,822	(436)
Value of MCA	(269)	(275)	(6)
National Insurance	2,112	2,160	48
Share dividends after tax	600	600	0
Mortgage payments	2,468	2,468	0
Domestic fuel bills	1,296	1,296	0
Net income after mortgage and fuel bills	51,717	52,111	394
Duty: Petrol	1,719	1,813	94
Wine	2,548	2,548	0
Gain/(loss)			£300

Assumptions:
He earns £32,000, she earns £85,000. she nothing.
Domestic fuel £1,2000 pa + VAT (heated swimming pool).
His own Jaguar; 10,000 miles pa at 20 mpg unleaded petrol at £2.75/gallon now.
Her own Metro: 5,000 miles pa at 40 mpg; unleaded petrol at £ 2.75/gallon now.
Mortgage £40,000; Int rate 6.99%; repayment.
Drinks 7 bottles of wine per week at £7 per bottle, don't smoke.
2 children at university.
Share portfolio £25,000; yield 4% pa (gross).

Single person

	1996-97 £pa	1997-98 £pa	Change £pa
Income	25,000	25,000	0
Income tax	4,940	4,697	(243)
National Insurance	2,112	2,160	48
Rent	6,000	6,000	0
Domestic fuel bills	432	432	0
Net income after fuel bills & rent	11,516	11,711	195
Duty: Petrol	917	967	50
Wine	364	364	0
Cigarettes	1,019	1,074	55
Gain/(loss)			£90

Assumptions:
Single female earning £25,000 pa.
Domestic fuel £400 + VAT.
Her own Mazda sports; 10,000 miles pa at 30mpg; super unleaded petrol at £2.75.
Drinks 1 bottle of wine a week at £7 a bottle and smokes 7 packets a week at £2.80

Pensioner couple

	1996-97 £pa	1997-98 £pa	Change £pa
Income	30,000	30,107	107
Income tax	4,845	4,591	(254)
Value of MCA	(269)	(275)	(7)
Domestic fuel bills	648	648	0
Net income after fuel bills	24,776	25,143	368
Duty: Spirits	780	766	(14)
Gain/(loss)			£381

Assumptions:
Recently retired pensioner couple, both aged between 65 and 74
Domestic fuel £600 pa + VAT.
Don't smoke but drink 1 bottle of scotch a week at £15.
He is on £19.107 occup. pension + £3.060 SRP: her £1,833 SRP + £6,000 total £30,000.

Recent graduate

	1996-97 £pa	1997-98 £pa	Change £pa
Income	10,000	10,000	0
Income tax	1,340	1,247	(93)
National Insurance	746	742	(4)
Rent	3,000	3,000	0
Domestic fuel bills	432	432	0
Net income after fuel bills & rent	4,482	4,579	97
Duty: Beer	1,040	1,040	0
Cigarettes	1,019	1,074	55
Gain/(loss)			£42

Assumptions:
Recent graduate earns £10,000 Domestic fuel £400 pa + VAT.
Drinks 10 pints beer/wk at £2/pint now
Smokes 7 packets a week at £2.80 a packet.

Unmarried couple

	1996-97 £pa	1997-98 £pa	Change £pa
Income	75,000	75,000	0
Income tax	18,516	17,669	(847)
National Insurance	4,224	4,320	96
Net income	52,260	53,011	751
Gain/(loss)			£751

Assumptions:
Not married. no children: he earns £45,000 pa, she £30,000.

High net worth individual

	1996-97 £pa	1997-98 £pa	Change £pa
Emoluments incl. £30k pens.	330,000	330,000	0
Company car & fuel benefit	10,653	10,823	170
Income tax	118,518	118,151	(367)
National Insurance	2,112	2,160	48
Mortgage payments	15,000	15,000	0
Net income after mortgage and pension	164,370	164,689	(48)
Gain/(loss)			£319

Assumptions:
Rich 'fat cat' director single. Company car cost £40,000; 4,000cc; 5,000 business miles pa; fuel provided by employer.
Mortgage £1,250 pcm repayment.
Employer pays £30,000 into pension scheme

Data provided by Coopers & Lybrand.

THE FAMILY

Satisfied with prudent package


Happy family: Colin Hulett and Julie Stark gain £420 a year Photograph: Mykel Nicolson

Colin Hulett, 47, and Julie Stark, 37; Hanwell, W London
Joint income: £52,000
Child: Oliver, two

Colin and Julie are a typically well-off family. Colin, who works in banking, and Julie, an administrative assistant, live in a semi-detached house with their young son.

They will be about £420 per year better off, and Colin was pleased: "It was in some ways more generous than I expected; in others the Chancellor was fairly prudent and sensible on the whole. The Budget has done little to change our political stance. However. we approve of the fact he avoided dramatically lowering income tax as this would have just made him seem silly."

He was disappointed, though not surprised, with the raise in duty on petrol, which will make them about £7.50 a month worse off. "My job involves a lot of driving and I cannot claim petrol on expenses, so it's a pain that this tax has gone up."

Julie and Colin estimate that they spend about £100 on wine a month, so they were relieved that there was no increase in the duty on wine.

Though Colin and Julie appreciate the Child Benefit that they received, they would prefer to see it go to people who need it more. "There are lots of people who could do with a little more money, and child benefit is not a source of income that we rely on desperately."

Colin's mother is at a retirement home age and they were disappointed with the Chancellor's changes to inheritance tax. "It's pointless increasing the threshold on inheritance tax if she is going to have little money left after she's paid for living in a retirement home."

THE CAREER WOMAN

Cynicism at 'bribery attempt'


Lydia Thornley: Would have paid more tax to fund NHS

Lydia Thornley, 36
Wood Green, north London
Self-employed design consultant
Income: £25,600

Lydia Thornley, a self-employed graphic designer, was cynical about the Chancellor's speech.

The budget will mean she is about £300 a year better off, but she was not going to be bribed into supporting the Government. "This close to a general election, a tactical budget was going to be inevitable; but I certainly won't be voting for an illusion of short term personal gain," she said.

"Before I vote I will be looking at not just how the Chancellor's budget has affected me, but also its impact on the rest of the country."

Being both self-employed and single, the Chancellor's budget has a significant impact on Ms Thornley. This is compounded by the fact that she is trying to move house. She saw Mr Clarke's attempt to help small businesses as "a bit of an illusion", adding: "Any tax cuts in one area are reciprocated by increases in another. I also felt that there was not enough co-ordination of policy in this year's budget between the different government departments."

She was disappointed to see the omission of any changes to pensions. "I wouldn't have minded if there were to be increased spending on the elderly. Similarly I would not have minded if they had even raised taxation, if that meant an increase in the amount spent on the NHS and education."

Petrol cost rises will affect Ms Thornley because it will increase her suppliers' expenses.

THE SINGLE MOTHER

'I'm glad schools will get more'


Helen Harron and her young child Photograph: Emma Boam

Helen Harron, 35
Harrow, north London
Two children, aged 4 and 7 weeks
Benefits: £80 pw and £19 pw mortgage interest paid by DSS

As a single mother bringing up two children living on benefits, Helen Harron does not have a lot of spare cash floating about. She was pleasantly surprised even though the Budget had little impact on her income.

"Well, to be quite honest, I didn't think an awful lot of it was too bad for me," she said after hearing the budget. "the single parent benefit has been axed, but I don't claim it because it would be knocked off my income support.' Unlike most single mothers. Helen is currently on maternaty leave, having left her job as an information officer with the AA. which means that the changes to the single parent benefits do not affect her.

'It would have been nice if the child benefit had gone up instead of staying the same.' It remains £17.10 a week.

Before the Budget she had been worried about the effect of a rise in the price of petrol. There were no pleasant surprises in this department. 'I know I'm lucky to have a car because I'm on income support - but the car tax going up by £5 will actually make it quite difficult for me. I may not be able to keep the car running, particularly as petrol has gone up too. Also I don't have family who live locally - they are in Cardiff - and it is already quite expensive to get down there'.

'With two children, one near to school age, I'm glad they're going to spend extra money on education. Sian is starting nursery school in January, and Primary school in September.

THE BUSINESSMAN

Water fat cat laps up extra £442


Better off: but will Sir Desmond Pitcher notice?

Sir Desmond Pitcher, 61; Cheshire and Surrey
Chairman, United Utilities
Income: £310,000 salary, plus £115,000 benefits

Sir Desmond Pitcher is in charge of most of the water and electricity in the north of England. He is Chairman of United Utilities, the giant company that was created by the merger of NorthWest Water and Norweb in 1995.

Dubbed the fattest of the fat cats by the Labour Party, he will be approximately £442 better off per year after yesterday's Budget – but for a man who earns close to half a million pounds he is hardly likely to notice the difference.

Sir Desmond will earn in £310,000 in the coming year. This does not include, however, bonuses, benefits and pension contributions. which last year made up £114,800.

The Chancellor did not announce any tax changes that would affect his salary and benefits significantly.

Sir Desmond is also entitled to a short-term bonus of up to 40 per cent of his pay and a long-term bonus of up to 87.5 per cent of his salary. Unfortunately for Sir Desmond, however, the expected abolition of capital gains tax, which would have meant a possible windfall of £179,081 for him, did not happen.

As head of United Utilities, he lives in Onston Hall - a mansion in Cheshire. He has another house in Surrey and keeps a £500,000 yacht in the Mediterranean.

He now has to pay £68 per year extra tax on his car fuel, but his large salary means that this change is unlikely to affect him vastly.

Sir Desmond had little to complain about in yesterday's Budget. But this could all change if Labour were to get into power, because windfall tax would directly affect him.

How the income tax changes affects you

Tax rate bands

Income band, £	Income tax rate	Income bands £	NIC rate
0 - 4,045	0	0 - 3,224	0
4,046 - 8,145	20%	3,225 - 24,180	10%
8,146 - 30,145	23%	24,181 & above	0
above 30,145	40%		plus 2% on first £3,224

Personal allowances

	£ 1996-97	1997-98
Personal allowance	3,765	4,045
Personal allowance (65-74)	4,910	5,220
Personal allowance (75 and over)	5,090	5,400
Married couples' allowance	1,790	1,830
Married couple's allowance (65-74)	3,115	3,185
Married couple's allowance (75 and over)	3,155	3,225
Blind person's allowance	1,250	1,280
Income limit for age related allowances	15,200	15,600

Married persons tax

Gross annual income	Monthly tax and NI 1996-97	Monthly tax and NI 1997-98	New net monthly salary	Monthly change in net salary
5,000	20.52	20.17	399.83	3.68
10,000	151.52	142.85	690.48	8.66
15,000	283.18	280.35	969.65	12.83
20,000	434.85	417.85	1,248.81	16.99
25,000	565.35	548.52	1,534.81	16.82
30,000	675.15	644.35	1,855.65	30.79
35,000	841.81	808.97	2,107.70	32.84
40,000	1,008.48	975.83	2,357.70	32.84
50,000	1,341.81	1,308.97	2,857.70	32.84
60,000	1,675.15	1,642.30	3,357.70	32.84
75,000	2,175.15	2,142.30	4,107.70	32.84
100,000	3,008.48	2,975.63	5,357.70	32.84

Single person tax

Gross annual income	Monthly tax and NI 1996-97	Monthly tax and NI 1997-98	New net monthly salary	Monthly change in net income
5,000	41.10	36.09	380.58	5.02
10,000	173.89	165.73	667.81	8.16
15,000	315.55	303.23	946.77	12.32
20,000	457.22	440.73	1,225.94	16.49
25,000	587.72	571.39	1,511.94	16.33
30,000	697.52	667.23	1,832.77	30.29
35,000	864.19	831.84	2,084.83	32.35
40,000	1,030.85	998.51	2,334.83	32.35
50,000	1,364.19	1,331.84	2,834.83	32.35
60,000	1,697.52	1,665.17	3,334.83	32.35
75,000	2,197.52	2,165.17	4,084.83	32.35
100,000	3,030.85	2,998.51	5,334.83	32.35

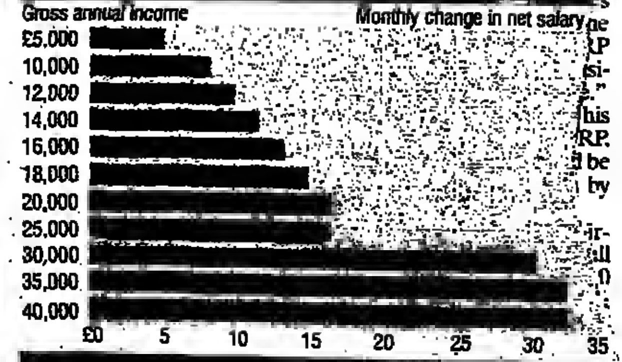
Married person's tax 65-74

Gross annual income	Monthly tax and NI 1996-97	Monthly tax and NI 1997-98	New net monthly salary	Monthly change in net income
5,000	0.00	0.00	416.67	0.00
10,000	49.86	41.55	791.78	8.31
15,000	149.86	137.39	1,112.61	12.47
20,000	288.45	268.55	1,398.11	19.89
25,000	389.33	368.51	1,714.82	20.81
30,000	499.13	464.35	2,035.65	34.77
35,000	665.79	628.96	2,287.71	36.83
40,000	832.46	795.63	2,537.71	36.83
50,000	1,165.79	1,128.96	3,037.71	36.83
60,000	1,499.13	1,462.29	3,537.71	36.83
75,000	1,999.13	1,962.29	4,287.71	36.83
100,000	2,832.46	2,795.63	5,537.71	36.83

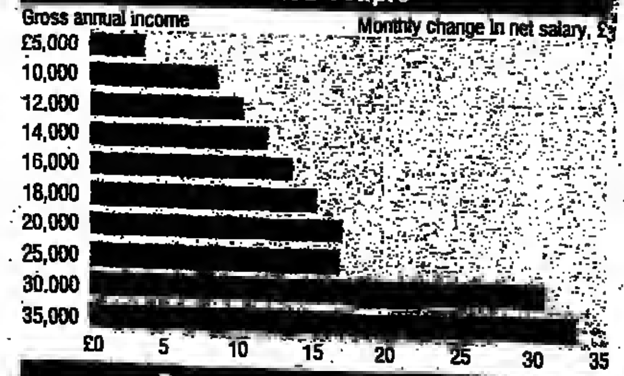
Single person's tax over 75

Gross annual income	Monthly tax and NI 1996-97	Monthly tax and NI 1997-98	New net monthly salary	Monthly change in net income
5,000	0.00	0.00	416.67	0.00
10,000	85.20	77.92	755.42	7.29
15,000	185.20	173.75	1,076.25	11.45
20,000	311.70	295.55	1,371.11	16.14
25,000	411.70	391.39	1,691.95	20.32
30,000	521.50	487.22	2,012.78	34.28
35,000	688.17	651.83	2,264.83	36.33
40,000	854.83	818.50	2,514.83	36.33
50,000	1,188.17	1,151.83	3,014.83	36.33
60,000	1,521.50	1,485.17	3,514.83	36.33
75,000	2,021.50	1,985.17	4,264.83	36.33
100,000	2,854.83	2,818.50	5,514.83	36.33

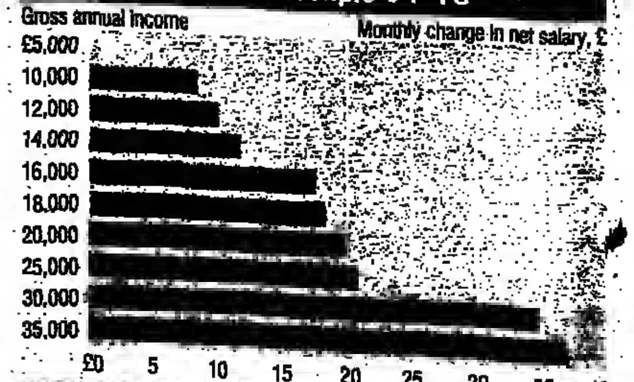
Single person's tax



Married couple



Pensioner couple 64-75



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